

SUSTAINABILITY REPORT



**Our
actions
do the
talking.**



Kaufland

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KEY PERFORMANCE INDICATORS



39
stores
in Croatia

More than

114
thousand m² retail sales space



MORE THAN

3,100
EMPLOYEES

WELCOME MESSAGE BY THE CEO OF KAUFLAND HRVATSKA K.D.

Dear Reader,

I am pleased to present the first Sustainability Report of Kaufland Hrvatska k.d. Allow me to explain how big this step is for us and what it actually means.



As a large international company, we have a great responsibility and a clear goal: to offer our customers a wide selection of high-quality products at low prices every day. However, as a retail chain, we do not just have an impact on your diet; we also affect your future. Wondering how? Allow me to explain.



Kaufland is a dynamic, caring and responsible company. At Kaufland Hrvatska k.d., sustainability is not just a word. Our social, environmental and economic responsibility is deeply ingrained in our work, every day. Beginning with selecting responsible producers and suppliers, through innovative recyclable packaging, all the way to consciously choosing shorter transportation distances: we actively participate in all phases of the supply chain.

Through cooperations with small companies nationwide, we provide our customers with the best domestic products, while encouraging domestic production. Thus, we are sending out a clear signal of our support for the theme of "Responsible Consumption and Production" – one of the 17 Sustainable Development Goals of the United Nations' Agenda 2030.

Through a series of socially responsible projects, we support our community and care, above all, for those who need help. For example, in cooperation with Caritas Croatia and the Croatian Red Cross, we regularly donate food to those in need and consequently fight hunger, another goal of the United Nations' Agenda 2030. We also encourage a balanced and healthy diet and donate fresh fruits and vegetables to pupils in primary schools every week.

The topic of sustainability is deeply ingrained into our daily operations. We responsibly and effectively use natural resources in a manner that supports climate protection. We were the first retail chain in Croatia to cease the use of plastic bags at all of our stores in Croatia on 1 January 2020, a step that other retail chains quickly followed.

Sales are a key part of our business. Over 2700 employees in stores and logistics are those who, with the support of about 400 employees at headquarters, enable you to make purchases every day. We care about employee health and well-being, ensuring that they have a work environment in which they feel comfortable, with numerous opportunities for professional development. Through our sustainable behaviour, we set high standards with a clear goal: to create a secure and healthy future for us all.

Djela, ne riječi. Our actions do the talking is our slogan. We are not simply talking about a better future; we have set clear goals to actively shape it. The following report will outline just how we did this in 2018 and 2019.

Sincerely,

A stylized, handwritten signature in white ink, belonging to Patrick Rudat.

Patrick Rudat
CEO Kaufland Hrvatska k.d.

ABOUT THE SUSTAINABILITY REPORT

This Sustainability Report has been prepared in accordance with the internationally recognised framework for non-financial reporting – GRI Standards: core option for a two-year reporting period, covering the 2018 (from 1 March 2018 to 28 February 2019) and 2019 (1 March 2019 to 29 February 2020) fiscal years (hereinafter referred to only as 2018 and 2019).

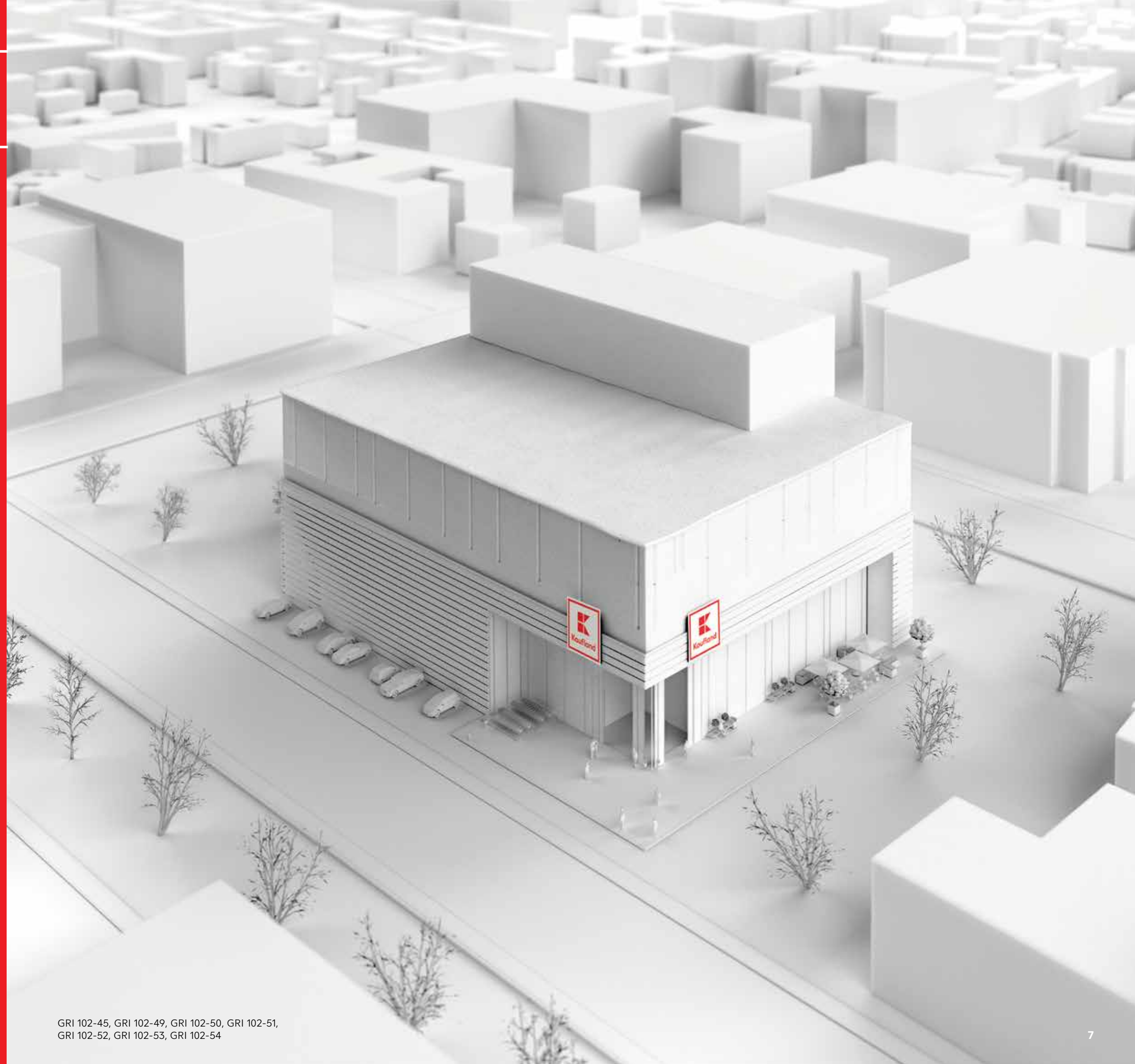
The Report transparently presents non-financial information regarding the impact of the operations of Kaufland Hrvatska k. d. (hereinafter: Kaufland) and the associated company Europa – upravljanje nekretninama d.o.o. on society, the economy and the environment.

All non-financial information was collected by the Working Group for non-financial reporting covering multiple Kaufland departments, with the support of the Croatian Institute for Corporate Social Responsibility (IDOP).

In order to raise the quality of this sustainability report, three GRI standards were selected and further verified by an external expert, the consulting company Ernst & Young. That report is available on page 104.

The report was prepared in print and PDF format, and published on the Kaufland website: kaufland.hr/izvjestaj

We invite stakeholders to read the report and share their comments and suggestions at the following e-mail address: komunikacije@kaufland.hr



ABOUT KAUF LAND



DJELA, NE RIJEČI. OUR ACTIONS DO THE TALKING.

The roots of the business go back to 1930, when Lidl & Schwarz was founded. In 1968 the first store was opened and today Kaufland is an international retail company with around 1,300 stores in eight countries: Germany, Croatia, Poland, the Czech Republic, Romania, Slovakia, Bulgaria and the Republic of Moldova.

In Croatia, the assortment in Kaufland stores depends on store size and ranges from 12,000 to 24,000 food and non-food articles.

Kaufland wants to offer its customers a shopping experience characterized by product variety, quality, freshness, and fair value for money.

Particular attention is dedicated to the responsible selection of food and other products, promoting sustainability and local production through responsible sourcing, production quality control, better animal husbandry conditions, preservation of the marine environment, employee education and reducing negative environmental impacts. Through efforts to achieve sustainable development, customers are provided continuous access to a growing assortment of environmentally friendly and fair products of regional, national, and international origin.



MAJOR BRANDS

In addition to branded products, Kaufland stores also offer many products from Kaufland private label brands. Special attention is dedicated to product freshness and customer and employee satisfaction is of utmost importance.



DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED
(MILLIONS HRK)

	2019	2018
Direct economic value generated – Revenues (Revenue from the sale of goods, assets, palettes, paper, lease, logistics services, interest)	3,940	3,652
Economic value distributed	3,718	3,545
Operating costs (expenditures for material costs, insurance, group costs, transactions, lease, work clothing, employee training)	3,302	3,163
Employee wages and benefits (Wages)	259	238
Payments to providers of capital (Interest costs)	9	8
Payments to national government (Income tax, pension and health care contributions)	144	134
Community investments (Donations in goods and monies)	4	2
Economic value retained	221	107

PAID TAXES AND OTHER BENEFITS (MILLIONS HRK)

	2019	2018
Value added tax	306	318
Profit tax	14	
Excise duties	13	11
Membership fees	2	2
Utility charges	16	15
Income taxes and contributions	128	131
Total	479	477



MEMBERSHIPS AND RECOGNITIONS

Kaufland is a member of national and international networks that advocate for sustainable development. With its knowledge and experience from the retail industry, Kaufland contributes to their activities.

- German-Croatian Chamber of Industry and Commerce, since 2002
- Croatian Employers' Association, since 2005
- Joined the Supply Chain Initiative in 2014, as a commitment to the principles of good practice in the food supply chain
- Certificate Employer Partner (*Certifikat Poslodavac partner*), 2016, 2017, 2018, 2019
- Community for Corporate Social Responsibility (*Zajednica za društveno odgovorno poslovanje*), since 2018
- As part of the Schwarz Group Kaufland has signed the Ellen MacArthur Foundation's New Plastics Economy Global Commitment in 2018
- Certificate Health Friendly Company (*Certifikat Tvrtka prijatelj zdravlja*), since 2019
- Volunteering Charter (*Povelja o volontiranju*), signed in 2019

Kaufland Hrvatska k.d. recognises its special responsibility for sustainable development and undertakes to act in a socially, health and environmentally responsible manner in its daily business – this clear commitment to sustainability should also be made transparent to the public.

For this reason, the Kaufland Foundation joined the United Nations Global Compact (UNGC), the world's largest and most important initiative for responsible corporate governance, as part of the Schwarz Group at the beginning of 2020. By doing so, we committed ourselves to the UNGC's ten universal principles in the areas of human rights, social standards, environment and anti-corruption, thus providing a global framework for our extensive engagement for sustainability, which has grown over the years.

As part of the Schwarz Group, Kaufland Hrvatska k.d. makes an important contribution to the sustainable development and has already implemented a wide range of measures in the past to support the principles for a sustainable global economy. Since joining, this commitment has been further promoted – numerous successes have already been achieved.

WE SUPPORT



GRI 102-11, GRI 102-12, GRI 102-13



CHALLENGES AND OPPORTUNITIES

The economic and sustainable growth of the environment in which Kaufland operates depends in part on how the organisation combats corruption and anti-competitive behaviour. Kaufland strictly adheres to the applicable legislation because fair competition is a pillar of efficient and sustainable economic growth. Corruption and anti-competitive behaviour can have negative effects across the value chain. This type of behaviour can influence customer choice, product pricing, and other factors that are important to an efficient market, and the initiation of administrative proceedings in this area against a company raises concerns among its potential business partners. No administrative proceedings have been instituted against Kaufland for acting contrary to the principle of freedom of competition, i.e. the prohibition of cartels, demonstrating the company's commitment to corporate social responsibility.

According to the GfK methodology of household panels, Kaufland is the third largest company on the Croatian FMCG-retail market with a growing market share in long-term comparison. The Household Panel survey collects data on the purchase of consumer goods and uses innovative technologies to aggregate collected information into findings and recommendations that assist companies to understand the current market development trends and based on this, improve their product range, thereby expanding consumer choice.

In the context of success, the complexity of climate change and changes in the social aspect of sustainability both represent challenges for Kaufland. Many companies believe that the consequences of climate change are only relevant in the long run and do not necessarily have an impact on today's business decisions. This has proven to be faulty logic. Both climate change and social change pose global market risks, while on the other hand, they also create measures that cannot be ignored. Social and environment changes can cause uncertainty and risk, which in turn can have a significant negative on business.

For these reasons, Kaufland Hrvatska k.d. established a Working Group for non-financial reporting, which analyses and identifies potential risks as well as measures and goals, and the measures that should be implemented to create the conditions for doing business with a less negative environmental impact.

The first step in developing this report was to hold a workshop on identifying measures and goals, which was aimed at:

- understanding and identifying social and environmental risks that can have a significantly adverse effect on business;
- seeking answers to risks in the form of measures, and
- minimising the associated risks by achieving the set goals.

In the process of identifying risks, measures and goals, the Kaufland Working Group for non-financial reporting applied the recommendations for risk identification as prescribed by the Task Force on Climate-Related Financial Disclosures (TCFD). These recommendations provide a clear starting point for companies to identify risks, measures and goals in facing future challenges, which creates benefits and increases business performance in the long run. The table outlines the identified social and environmental risks that could significantly affect the business and sustainability of Kaufland, and the related measures and goals (that minimise risks).

In the future, these measures and goals will be monitored and adapted as necessary.

IDENTIFIED RISKS THAT CAN SIGNIFICANTLY AFFECT THE BUSINESS AND SUSTAINABILITY OF KAUFLAND AND MEASURES AND GOALS THAT MINIMISE THOSE RISKS*

RISKS	MEASURES	GOALS
1. Increasing energy costs	Independent energy production More efficient use of energy sources (electricity, rainwater collection, etc.)	Reduce energy consumption Stabilize energy costs Reduce dependance on external power supplies
2. Increase of property or product damage due to extreme weather events / natural disasters	Organised crisis management	Prompt damage inventory and repair Safety of customers and employees
3. Increasing difficulty in retention and attraction of labour	Market monitoring Adapting to market needs Providing above-average working conditions Developing employer image/influence	Competitive position on the retail labour market Image as a desirable and reliable employer
4. Product shortage	Alternative suppliers for food Developing and expanding the supply chain (geographical diversification)	Constantly provide customers with a sufficient assortment, good prices and high quality
5. Health related dietary product issues	Supplier have one of the valid GFSI certificates (IFS or BRC) Conducting supplier audits Compliance with freedom of competition principles	Always provide customers with a safe assortment range
6. Increasing effects of environmental pollution	Encourage local production Offer customers a higher number of regional products Maintain and increase cooperation, educate and inform local producers according to Kaufland standards	Ensure safe production of food Reduction of CO ₂ emissions
7. Breaches in data security	Cooperation with companies with high data security standards Continuous review of business processes	Company image as a reliable retail chain, employer and business partner

*Risks, goals and measures are not presented in order of priority.

SHAPING THE SUSTAINABILITY STRATEGY

The operations of an organisation significantly influence stakeholders as groups or individuals, while their decisions and activities may also influence the success of that organisation's operations. The primary stakeholders of Kaufland are the customers who visit Kaufland stores every day. Other important stakeholders are the company employees, suppliers, business partners, investors, banks, non-governmental organisations, the academic community, associations, the media and others.

Dialogue with stakeholders that can or could influence the operations of Kaufland enables transparency that forms the basis and inspiration for improving operations and business processes, with the aim of sustainable development. For that reason, Kaufland has categorised its stakeholders into key groups in order to ensure their needs are understood. This is achieved through effective communications on specific social, environmental and economic topics. In order to define the important topics in corporate social responsibility and the sustainable development strategy, the following activities were carried out: (1) dialogue with stakeholders, (2) analysis of the importance and perception of corporate social responsibility issues based on stakeholder group, (3) development of the materiality matrix, and (4) identifying the sustainable development goals that Kaufland contributes to most.

SHAPING PROCESS OF THE SUSTAINABILITY STRATEGY

IDENTIFICATION OF THE SUSTAINABLE DEVELOPMENT GOALS TO WHICH KAUF LAND CONTRIBUTES THE MOST

DEFINING THE MATERIALITY MATRIX

ANALYSIS OF THE IMPORTANCE AND ENGAGEMENT FOR CORPORATE SOCIAL RESPONSIBILITY TOPICS BY STAKEHOLDER GROUP

DIALOGUE WITH STAKEHOLDERS

DIALOGUE WITH STAKEHOLDERS

Dialogue with stakeholders, aimed at analysing the importance and perception of corporate social responsibilities issues that are relevant for Kaufland Hrvatska k.d. was conducted as a survey in late 2018. The survey encompassed 1,400 customers, 237 Kaufland employees, and 154 external stakeholders. Dialogue with stakeholders included the workshop for the Kaufland Management Board, attended by the Chairman of the Management Board, four Management Board members, and the Corporate Communications Department. The workshop was moderated by the German strategic consulting company specialising in corporate social responsibility, fors.earth GmbH.

Dialogue with stakeholders via the survey encompassed:

- 1,400 customers
- 237 employees (79 from headquarters, 136 in sales and 10 in logistics),
- 154 external stakeholders (119 suppliers, 8 non-governmental organisations, 27 science representatives)

PERCEPTION OF CSR ENGAGEMENT

MORE THAN HALF OF RESPONDENTS AGREE THAT KAUF LAND IS COMMITTED TO CSR TOPICS.

To what extent do you agree with the following statements?
Kaufland not only talks about CSR and sustainability, but also actively advocates for those topics.

ALL RESPONDENTS

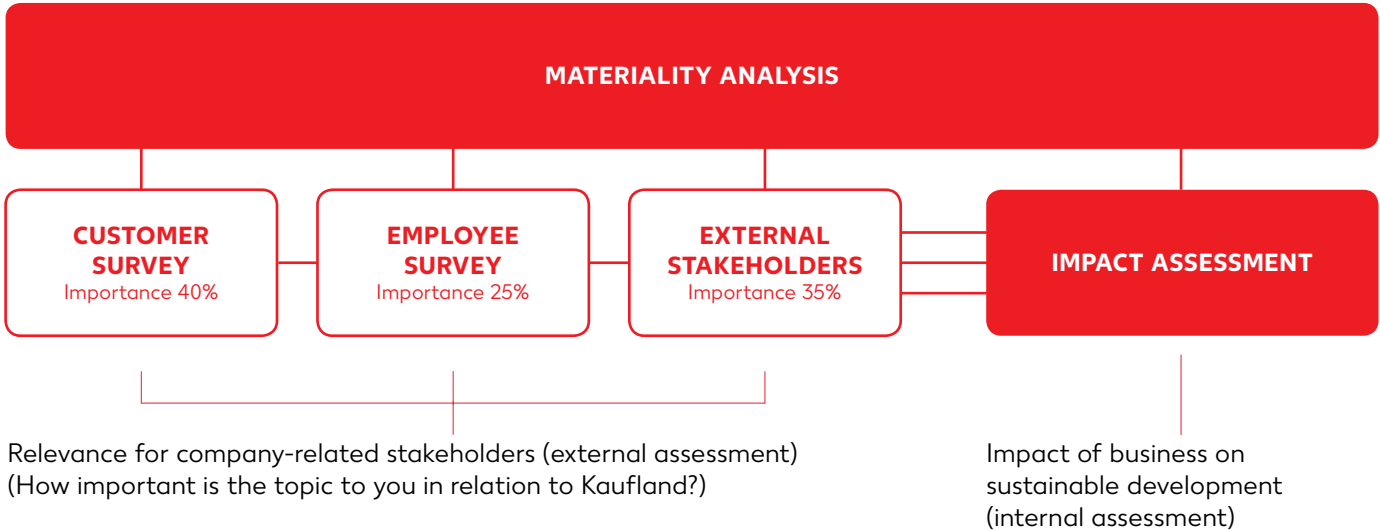


ANALYSIS OF THE IMPORTANCE AND ENGAGEMENT FOR CORPORATE SOCIAL RESPONSIBILITY TOPICS BY STAKEHOLDER GROUP

The dialogue with stakeholders was aimed at **analysing the defining the important and material issues of corporate social responsibility**, from the perspective of individual stakeholder group, that should be integrated into the Kaufland business strategy. This analysis of the materiality or importance of corporate social responsibility issues enables important topics for stakeholders to be identified and ranked, and weighted based on

their relevance (customers have a 40% importance weighting, employees 25%, and suppliers, NGOs and science representatives together have a weighting of 35%). The identified topics are compared with the Kaufland business strategy priorities, and the impacts of company operations on sustainable development are analysed, thereby identifying potential areas for improvement.

IMPACT ASSESSMENT IS AN IMPORTANT ELEMENT OF THE MATERIALITY ANALYSIS



The analysis of the corporate social responsibility issues that are material issues from the stakeholder perspective identified the important issues separately for each group: (1) customers, (2) employees and (3) external stakeholders (suppliers, NGOs and scientists). These results were used to create the Kaufland materiality matrix which can be found on the next page.

From the customer perspective, it was concluded that the issues most important for Kaufland’s sustainable development were: promoting local and regional products, GMO-free products, and Kaufland as a responsible employer.

IMPORTANT ISSUES FROM THE CUSTOMER PERSPECTIVE	ISSUE ON THE MATERIALITY MATRIX BY ORDINAL NUMBER
Local, regional products	7, 8 & 14
GMO-free products	3, 6, 8, 10, 11 & 16
Responsible employer	15

From the employee perspective, the most important issues identified for the sustainable development of Kaufland were: promoting local and regional products, salary and additional benefits, and ensuring a work-life balance and fair working hours.

IMPORTANT ISSUES FROM THE EMPLOYEE PERSPECTIVE	ISSUE ON THE MATERIALITY MATRIX BY ORDINAL NUMBER
Local, regional products	7, 8 & 14
Salary and additional benefits	15
Work-life balance / working hours	15

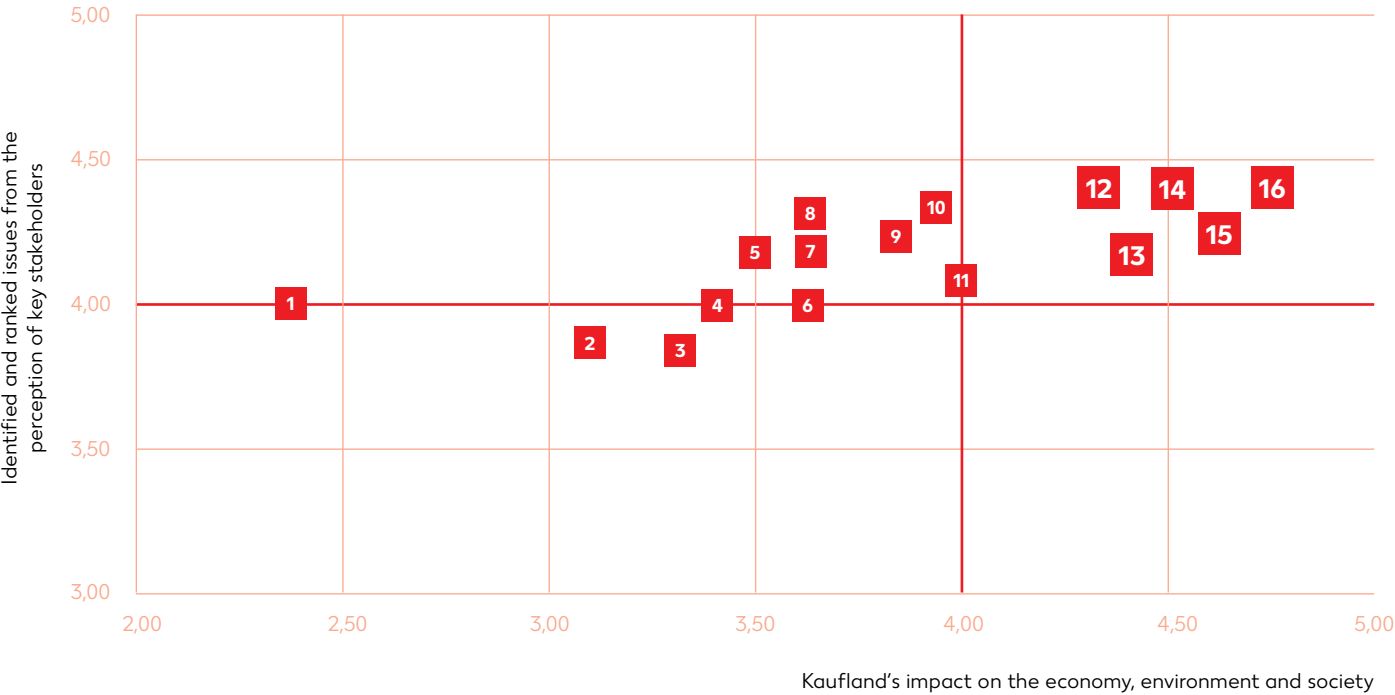
From the external stakeholder perspective (suppliers, NGOs and scientists), it was concluded that pesticide-free fruits and vegetables, support for small regional suppliers, and promoting local and regional products are the most important issues for Kaufland’s sustainable development.

IMPORTANT ISSUES FROM THE EXTERNAL STAKEHOLDER PERSPECTIVE	ISSUE ON THE MATERIALITY MATRIX BY ORDINAL NUMBER
Pesticide-free fruits and vegetables	3, 6, 8, 10, 11 & 16
Support for small regional suppliers	7, 8, 14 & 16
Local, regional products	7, 8 & 14

DEFINING THE MATERIALITY MATRIX

The analysis of the importance and perception of CSR issues, as outlined in the dialogue with stakeholders, is an important strategic element in the analysis of materiality, required to build the **materiality matrix**. The materiality matrix plots the identified and ranked sustainability issues from the perception of key stakeholders (y-axis) and the influence of Kaufland operations on the economy, environment and society (x-axis). The materiality matrix was built using the methodology recommended by the GRI Standard. The environment, economic and social material issues form the foundation for preparation of the sustainability report and the basis for the collection and monitoring of non-financial indicators, with the aim of achieving the set sustainable development goals of Kaufland. All identified issues are significant within the organisation and along the entire supply chain, with issues number 12-16 being the material ones.

MATERIALITY MATRIX



SIGNIFICANT ENVIRONMENT, SOCIAL AND ECONOMIC ISSUES:

- 1

Green logistics
- 2

Customer service and educating customers about a healthy diet, food waste, avoiding plastics, etc.
- 3

Expanding the sustainable assortment
- 4

Environmental protection in company processes
- 5

Transparency at sales locations
- 6

Products that do not involve keeping animals in unacceptable conditions or that use animal experimentation
- 7

Ecologically acceptable supply chain and production that are favourable to the climate and conserve natural resources
- 8

Sustainable agriculture
- 9

Packaging made from ecologically acceptable materials
- 10

Reducing and avoiding chemicals and harmful compounds in production and production processes
- 11

Expanding the healthy assortment
- 12

Avoiding food waste
- 13

Social engagement for people and the environment
- 14

Promoting local and regional products
- 15

Responsible employer
- 16

Social standards, work and living conditions in the supply chain and production




IDENTIFICATION OF THE SUSTAINABLE DEVELOPMENT GOALS TO WHICH KAUFLAND CONTRIBUTES THE MOST

Kaufland Hrvatska k.d. is committed to a responsible relationship with its employees, the community, and the environment. The slogan *Djela, ne riječi*. "Our actions do the talking", is focused on the health of people and the planet, taking into account of the principles of responsible procurement and fair business practices in the supply chain, implementing healthy living initiatives among employees and in the community, and developing strategies to reduce the use of plastic and waste.


Kaufland’s biggest focus lies on the health of employees, customers and business partners and the protection of the environment, according to which the company also defined its priority sustainability goals.

Below are the four fundamental goals that Kaufland contributes to above all, while also taking the remaining UN sustainable development goals into account.

2
ZERO HUNGER



Kaufland contributes to the eradication of hunger and improved nutrition through the consumption of safe and high quality food, and supports sustainable agriculture in the supply chain.

- ✓ Support to local farmers and their inclusion in the supply chain
- ✓ Sustainable sourcing through the implementation of comprehensive procedures for the control and supervision of goods
- ✓ Minimising food waste and loss by donating damaged goods or goods close to the expiration date

3
GOOD HEALTH AND WELL-BEING



Kaufland conducts employee education programmes on a healthy lifestyle and nutrition, and contributes to the well-being of the community in which it operates.

- ✓ The Healthy Life initiative aims to raise awareness of the importance of health care and to promote a healthy lifestyle
- ✓ The Flexible work programme provides support to balancing employees’ private and work life
- ✓ Employees can take part in seminars as part of the training programme

12
RESPONSIBLE CONSUMPTION AND PRODUCTION


Kaufland develops and implements business models for responsible consumption and production.

- ✓ Sustainable production of private label brands, e.g. with domestic raw materials
- ✓ REset Plastic - elimination of lightweight plastic bags and reduction of plastic share and plastic packaging on existing products
- ✓ Conducting supplier audits

13
CLIMATE ACTION


Kaufland aims to reduce environmental pollution and thus minimise the negative impacts on climate.

- ✓ Using recyclable packaging materials for private label brands
- ✓ The industrial cooling system uses waste heat generated by the operation of refrigerated display cases for heating in winter
- ✓ Investment in renewable energy sources - solar energy



SUSTAINABLE DEVELOPMENT GOAL 12: ENSURE SUSTAINABLE CONSUMPTION AND PRODUCTION PATTERNS – COMMON FOUNDATIONS

Because of the existing standards, a framework for a common strategic guideline for the Schwarz Group was developed in 2018. As a result, company operations are being conducted according to the Sustainable Development Goals (SDG), with special emphasis on goal 12, which concerns sustainable consumption and productions. The entire Schwarz Group has set objectives that contribute to fulfilling the subgoals of SDG 12.



Sustainable Raw Materials (12.2):
Ensure that the procurement of the most relevant raw materials is organised in a sustainable manner. This is effective for cocoa by the end of 2022, for plants and flowers by the end of 2023, for cotton and fish and fish products by the end of 2025. Analysis of other raw materials is performed regularly.



Food waste (12.3):
By the end of 2030, the Schwarz Group will reduce* food waste at the group level by 50%**. Food waste in certain raw materials and in the supply chain will also be reduced.



Chemicals (12.4):
The aim by 2030 is to achieve that all chemicals used in the production of private label brands are acceptable for health and the environment. Efforts will continue to abide by the Detox Commitment that contains the achieved agreement between Greenpeace and Kaufland concerning the Manufacturing Restricted Substances List (MRSL***) in the production of clothing and footwear. For fruit, vegetables, plants and flowers, ambitious lists of restricted substances will be defined by the end of 2020, and will be successfully developed over the coming years.



Zero waste (12.5):
By the end of 2025, the majority of all waste generated in the company**** will be reused or recycled.



Empowerment (12.8):
By the end of 2022, every employee will be trained and supported to act sustainably within their work area, and this measure will be continually implemented after 2022. By the end of 2025, customers will be offered greater transparency concerning the social, ecological and health effects of the assortment, to ensure greater awareness in decision-making. The conditions for this will be laid by 2022.

*For private label brand production, raw material waste will be reduced by 50% (food) by 2025 (in comparison with the 2017 baseline, in relation to the quantities placed on the market), ** In comparison with the 2018 baseline year for the company, *** MRSL = Manufacturing Restricted Substances List , **** Without municipal waste (e.g. on parking lots)

SUSTAINABILITY STRATEGY MANAGEMENT

Corporate Communications Department

The Corporate Communications Department was established on 1 December 2016 and is responsible for coordinating all topics related to corporate social responsibility. However, the company’s concern for the environment, society and the economy began much earlier, as Kaufland has always based its business on socially responsible foundations in accordance with international principles. However, the establishment of this department defined a clear strategy and vision for all further activities.

The Sustainability Strategy is based on three key determinants: Health, Children and the Environment. All projects are defined according to transparent criteria based on these strategic determinants.

Corporate Communications answers directly to the Chief Executive Officer. Next to four board members and main management areas as well as the Human Resources department, Corporate Communications are an important segment, intentionally put in the position of directly reporting to the CEO so that they are included in all management areas.

Working Group

As part of the preparations for the Sustainability Report, a Working Group for non-financial reporting was appointed to meet regularly to discuss details and collect the data published in this report. The Working Group consists of Kaufland representatives from various departments.



EMPLOYEES



EMPLOYEES

Development, teamwork, education and care for employees are the main aspects of sustainability upon which Kaufland bases the successful implementation of its business strategy. Kaufland's employees are talented individuals whom Kaufland offers new opportunities for professional development and for whom it creates a work environment that respects the identity of each individual which enables them to grow together with the company.

Corporate principles

- Customer satisfaction influences our actions.
- Superior value for money determines our market position.
- We continue to grow through expansion and continuous improvement in our markets.
- Being an affiliated company, we take a systematic approach.
- Short decision-making processes and simple workflows ensure our success.
- We comply with applicable laws and internal guidelines.
- Fairness towards every staff member is an imperative.
- We assume economic, social and ecological responsibility in our daily actions.
- We respect and promote one another.
- Agreements are respected in a climate of trust.
- Praise, recognition and feedback determine our corporate climate in our daily work.
- We surround ourselves with "strong" employees – deputies are in place in all departments.



Company values as our foundation

Organisational values are the fundamental principles that determine our behaviour.

- **PERFORMANCE** – Our performance is the decisive factor for our success. It requires action, determination, courage and passion. This goes for each and every individual, and for the team as a whole.
- **DYNAMICS** – Dynamics is the force behind making good things great and coming up with new ideas. There has to be a willingness and ability to change, and the resolution to take responsibility. Our ability to implement our ideas stems from this.
- **FAIRNESS** – Fairness is based on esteem and respect. It is an essential pillar upon which reliable cooperation is founded. It is essential in order to consistently achieve our goals.



EMPLOYEES

Leadership principles under the motto "Give me five" (Cro. "Daj pet") are based on Kaufland's organisational values. All managers are entrusted with "living" these management principles, while it is also Kaufland's binding promise to its employees:

- 1. Communicate clearly & give direction
- 2. Develop employees & be a role model
- 3. Perform strongly & create dynamics
- 4. Fair handling & create trust
- 5. Live responsibly & be a role model

<https://karijera.kaufland.hr/otkrij-kaufland/o-nama/nasa-kultura.html>

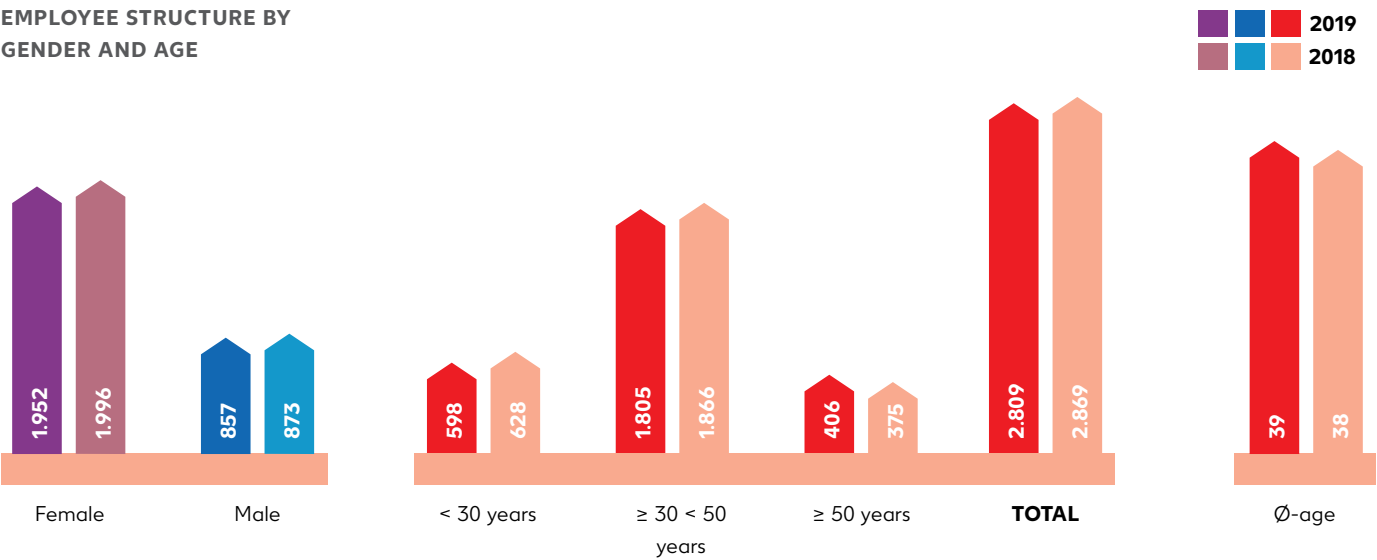
Kaufland keeps all employee records in SAP, and these records were used to determine the employee structure indicators. Long-term absent employees (e.g. employees on parental leave) were not included in the calculation.

2,809
Employees

30.5% Male
69.5% Female

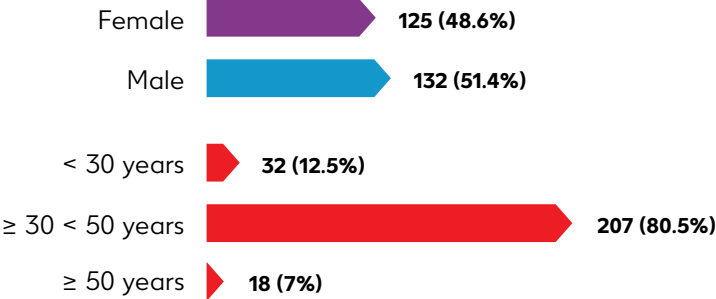


EMPLOYEE STRUCTURE BY GENDER AND AGE

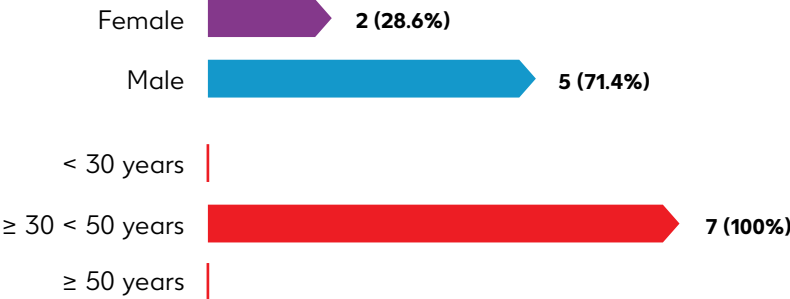


GOVERNANCE STRUCTURE BY GENDER AND AGE IN 2019

MIDDLE AND OPERATIONAL MANAGEMENT (257)



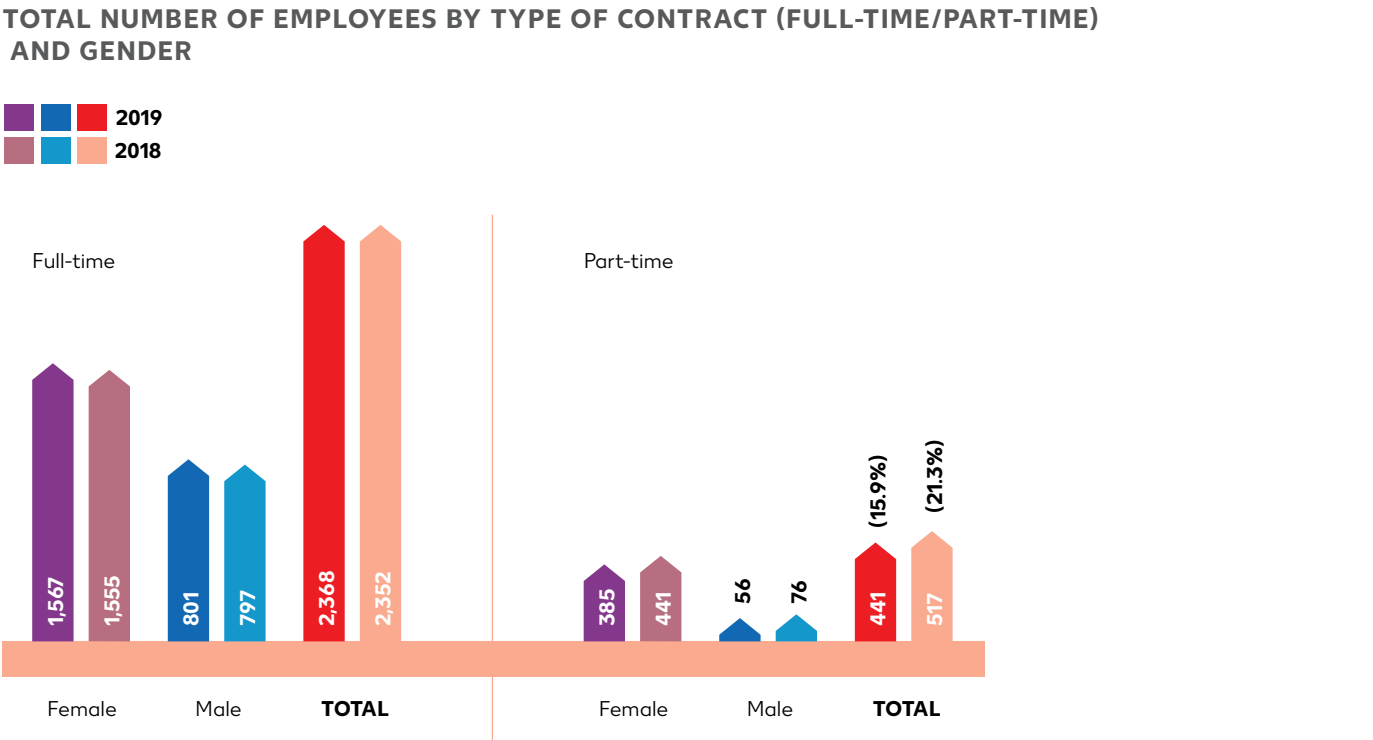
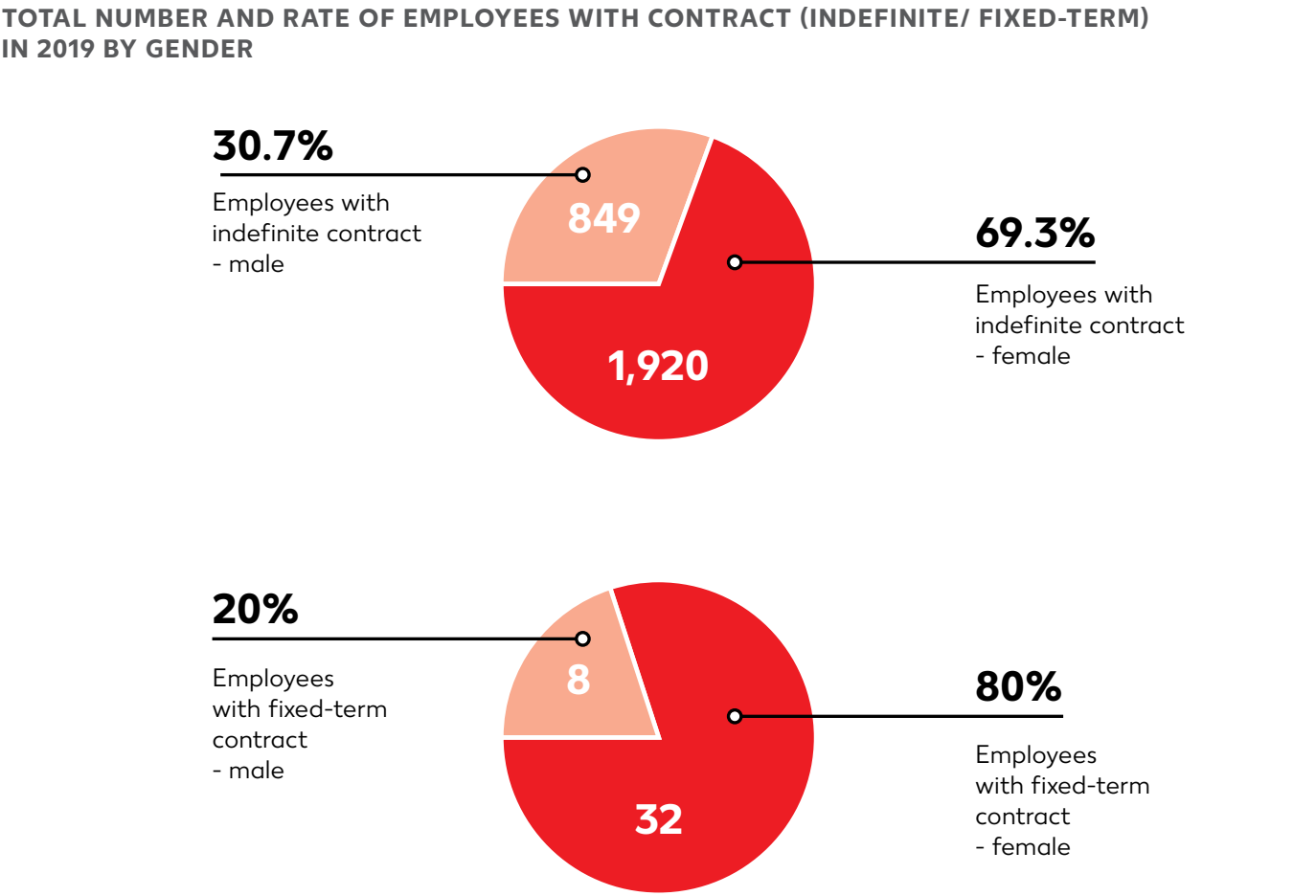
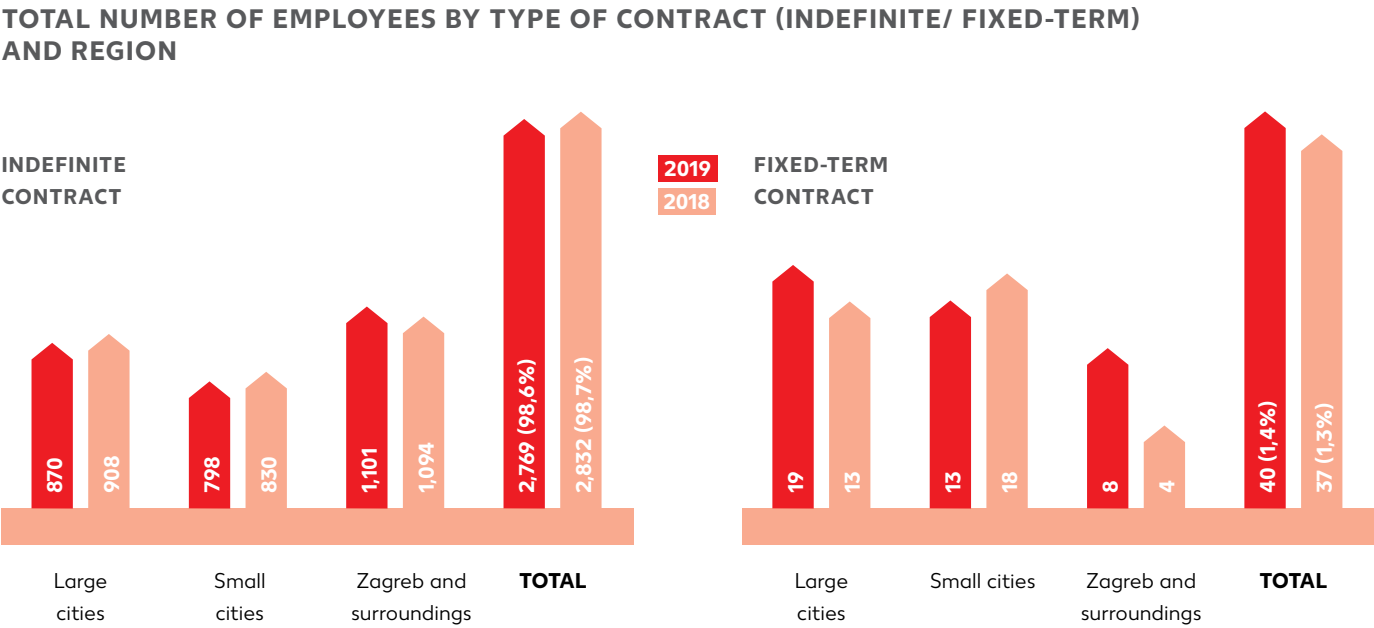
SENIOR MANAGEMENT (7)



TOP MANAGEMENT (5)

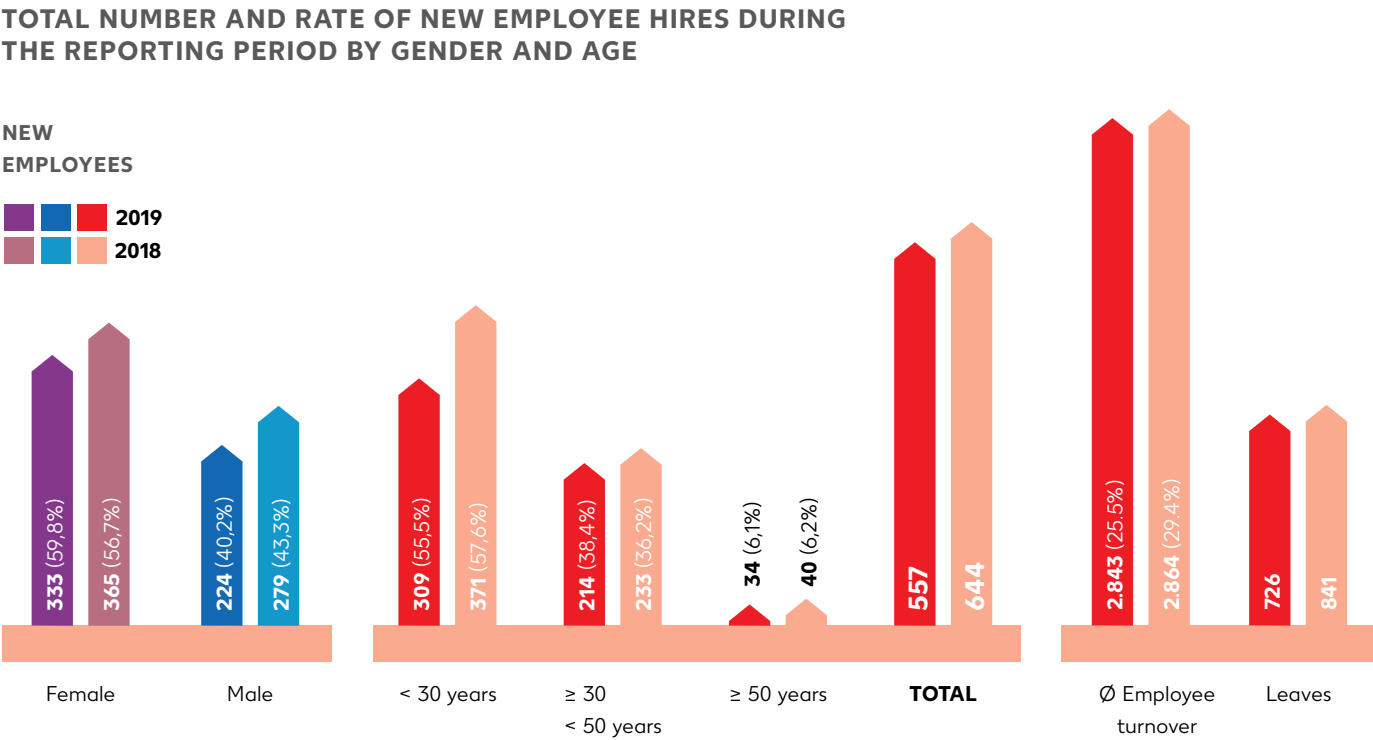


EMPLOYEES STRUCTURE



Full-time and part-time employees enjoy equal benefits.

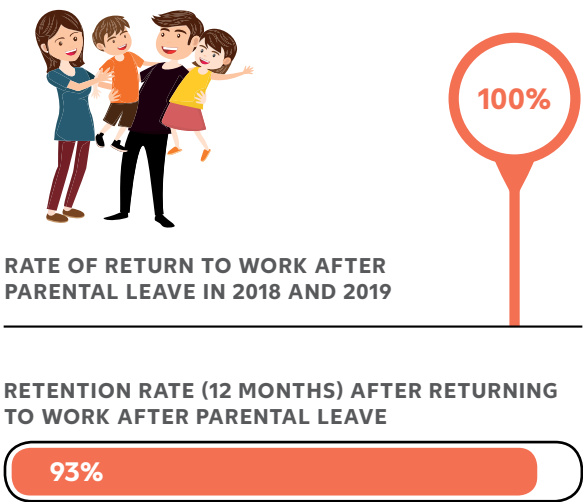
In 2018 and 2019, Kaufland did not have employees employed under the collective agreement.



BALANCING WORK AND PRIVATE LIFE

Parental support

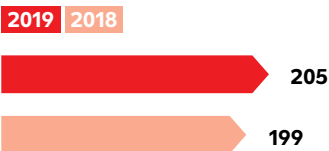
Kaufland's policy is to enable all employees to use maternity and/or parental leave and to return to work in the same or a comparable position. All employees who become parents, having had or adopted a child, are entitled to 100% of their gross salary for the first six months, and the legally prescribed amount for another six months. In 2018 and 2019, all employees who took parental leave returned to work after the completion of parental leave. According to the retention rate, 93% of employees remained employed for 12 months after returning from parental leave.



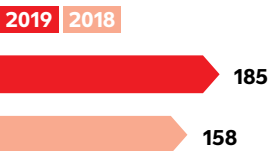
NUMBER AND STRUCTURE OF EMPLOYEES WHO HAVE EXERCISED THE RIGHT TO MATERNITY AND PARENTAL LEAVE

MATERNITY AND PARENTAL LEAVE	2019		2018		2019	2018
	M	F	M	F	Total	Total
Number of employees who used the right to maternity leave	1	160	1	182	161	183
Number of employees who used the right to parental leave	10	210	10	224	220	234

NUMBER OF EMPLOYEES WHO RETURNED TO WORK AFTER THE END OF PARENTAL LEAVE



NUMBER OF EMPLOYEES WHO RETURNED TO WORK AFTER THE END OF PARENTAL LEAVE, AND WHO REMAINED EMPLOYED FOR 12 MONTHS AFTER RETURNING TO WORK



- + Paid leave for the first day of school**
Parents of first-graders are given the opportunity to receive paid leave for their child's first day of school.
- + Baby gift package**
All babies born to Kaufland employees receive a special gift package with products from Kaufland's private label brands Kuniboo and Bevola.
- + Flexible work arrangement**
All parents returning from maternity or parental leave are offered the opportunity to work 50% or 75% of their working time in the first month in a flexible work engagement, to enable an easier return to the working world.
- + Kaufland pays attention to details**
With a special holiday gift package in the last month of the year, Kaufland thanks its employees for their dedicated work during the year. On their birthday, every employee also receives a small sweet gift from the employer and a gift for from their manager. Several times a year, social team gatherings are organised. In 2018 and 2019, four such gatherings were organised, two in the summer and two in the winter, separately for employees of each store, Logistics and Headquarters.



OCCUPATIONAL HEALTH AND SAFETY

Kaufland is constantly working to promote workplace health through various initiatives to promote a healthy lifestyle. Accordingly, educational lectures and workshops on different health related topics and sports challenges were organised in the reporting period. During 2018 and 2019, each employee received six healthy gifts, intended to raise awareness of the importance of health and encourage the development of healthy habits.

In 2019, the possibility of using the Multisport card was introduced for all employees. As an employer, Kaufland subsidises the cost of the card for employees, thus encouraging them to engage in physical activity and develop healthy habits.

Also, in 2019, Kaufland became a recipient of the certificate Tvrtka prijatelj zdravlja (engl. Health Friendly Company), awarded by the Croatian Institute of Public Health (HZJZ) to companies that enable their employees to adopt healthy habits, promote health in the workplace and show positive care for the health of employees, consumers and clients and environmental protection.

The ISO 45001 Occupational Health and Safety Management System was implemented at the end of 2019 in the headquarters, stores and distribution centre. This system encompasses all legal regulations in the field of employee protection in the performance of daily work tasks.

For many processes, the internal standards, measures and procedures adopted by the Schwarz Group are applied, which often go above and beyond the minimum legal obligations.

Prevention and mitigation of work-related health and safety impacts

Negative health effects and countermeasures taken:

- Working under lower temperatures (e.g. cooling chambers inside stores, fruit and vegetable hall in the distribution centre) – Kaufland strives to provide the highest quality personal protective equipment for employees working in lower temperature conditions. Additionally, organisational measures have limited the maximum time spent in the cooling chamber to 20 minutes at any one time. In the case of a larger volume of work in the chambers, more employees are encouraged to do the work.
- Manual lifting and carrying heavy loads – in all Kaufland stores, both manual and electric forklifts are provided to minimise the load of lifting and carrying loads. If loads heavier than 15 kg are handled by women and 25 kg for men, managers and employees are regularly educated that two persons should jointly handle such loads, whenever possible. All procedures and rules for proper lifting and correct movements when lifting heavier

loads are provided for employees, with illustrated instructions.

- Stress in the workplace (work and customer service, high pace of work during crowds, responsibility for employees and company assets) – company management decided to introduce a maximum five-day work week, giving employees more free time and reduce psychophysiological strain. Kaufland encourages healthy nutrition (gift packages) and engaging in sports activities. Moreover, Kaufland encourages managers to speak with employees to identify sources of stress on time, and react to reduce them.
- For employees working at the computer for more than 4 hours per day, stretching exercises are recommended, with a 5-minute pause every hour.

Work procedures are reviewed and analysed regularly by the occupational health and safety expert in the Audit department, and adapted as necessary to minimize risks to employee health and safety.



Occupational health services

To eliminate hazards and reduce occupational health risks, Kaufland provides professional health services such as:

1. Medical examinations of employees:

The occupational medical service conducts preliminary, periodic and extraordinary medical examinations of employees in jobs with special working conditions (using forklifts, working under colder or higher temperatures, working with hazardous substances) and vision check for employees working more than 4 hours at the computer. Examinations are carried out in accordance with the regulations during working hours, and each business unit has a contract with a selected occupational medical service.

2. Records of examinations and cooperation with Occupational Medicine:

The occupational medical service is a permanent member of the occupational health and safety

GRI 403-1 (2018), GRI 403-2 (2018) GRI 403-3 (2018),
GRI 403-4 (2018), GRI 403-5 (2018), GRI 403-6 (2018),
GRI 403-7 (2018), GRI 403-8 (2018), GRI 405-2



committee (OHS committee). If necessary, the service visits the business unit, inspects the workplace and speaks with employees. The medical examination schedule is kept by a special application, which automatically informs the responsible person of the upcoming medical examination.

To ensure employee participation, occupational safety counselling and communication, employees are encouraged to regularly report potential hazards and accident risks to their immediate supervisor. It is up to the supervisor to ensure that hazards are eliminated as soon as possible. The occupational safety expert conducts a quarterly internal review of the application of occupational safety and fire protection measures in each location, discusses any identified shortcomings with the responsible person, and jointly adopts measures to eliminate any shortcomings and to ensure they do not recur in the future. These efforts are aimed at preventing workplace accidents and injuries, or the occurrence of occupational diseases.

Risk assessments are available to employees in paper (info-desk) and electronic form (intranet). Occupational safety, fire protection regulations and other important news and instructions are available on the bulletin board and intranet. Employees and their representatives are notified of significant changes in the business that could affect them, in accordance with the law, and with the deadlines before the implementation of activities. As an employer, Kaufland continuously cooperates and communicates with the Employees' Council, which is informed about current topics and changes within the legally stipulated time period. Since 2019, information related to employee health and safety has been posted regularly on the bulletin board.

Through Occupational Safety and Health Commissioners, employees participate in the work

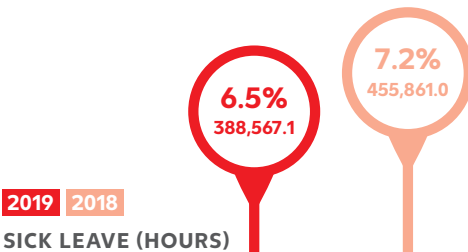
of the Committee, where current issues and possible improvements are discussed. The Committee meets at least twice per year. In order to continuously improve occupational safety, the Committee plans and monitors the use of rules, organisation of occupational safety, occupational safety information and training, and the prevention of occupational risks and its effects on employee health and safety.

Workplace injuries

The reorganisation carried out in October 2017 resulted in increased dynamics in all work positions. In 2018, this was reflected in an increased number of workplace injuries. During 2018, the focus was primarily placed on better work safety training, and more time was invested in ensuring better analysis of all injuries occurring in the workplace. Finally, Occupational Health and Safety Commissioners and employer representatives jointly defined corrective measures to prevent the reoccurrence of similar injuries.

The results of these steps were visible in 2019, with a decline in the number of workplace injuries. The same measures continue to be implemented with the aim of increasing workplace safety.

NUMBER OF WORKPLACE INJURIES (PER 1000 EMPLOYEES):



EMPLOYEE TRAINING AND EDUCATION

Employee occupational safety training
(theoretical and practical) includes training for:

- Emergencies (first aid, evacuation, fire)
- OHS committee training for Employer Authorised Officers and Employee representatives
- Training for electric/gas forklift operators
- Training for work with hazardous chemicals
- First aid training for all employees
- Training of janitors for the control of safety technical systems and work equipment
- Training of employees in jobs related to occupational safety
- Ensuring the minimum level of personal hygiene.

In addition to conducting the legally prescribed training and education, employees also have access to courses via the K-Portal for education. K-Portal for education is a modern and technologically advanced system based on Internet technology (SAP Success Factors).

When hiring, new employees take the assigned courses on the first working day, which they subsequently repeat every year.

Online courses are designed and developed internally, according to the business needs of Kaufland and the Schwarz Group.

Employees covered by the occupational safety system

The health and safety management system at Kaufland is based on the legal requirements and/or recognised standards and guidelines. The system is applicable for all employees, and for those who are not employees but whose workplace is controlled by the organisation.

Through the ISO 45001 Occupational Health and Safety Management System the process of drafting documented procedures is described. It lays down the requirements for the procedures for initiating, drafting, designing, issuing, revising and distributing documented procedures for the occupational health and safety management system.

All safety-relevant information is stored in digital systems and/or in hardcopy.

Skills programme and life-long learning

Employee development is very important at Kaufland. The company is constantly working to providing tailored employee education and professional development programmes focusing on the necessary skills and competencies. Depending on the position and needs of the workplace, all employees have access to internal and external training sessions, in the form of online courses and classroom training.

The first day for new Kaufland employees is marked with a symbolic event called Welcome Day, designed to facilitate the integration of new employees into the team.

There are several online training programmes designed to raise employee awareness of the importance of sustainable energy management, such as: "Sustainable Energy Management" and "Kaufland's Energy Management Policy" that all store employees are required to attend.

The training schedule for each employee is planned with the manager for the business year, based on the available courses in the development measures catalogue. Managers have access to a variety of training and skills development programmes in line with Kaufland's principles. All new employees are required to undergo a structured running-in process, in which they are trained to take responsibility for their workplace.

The quality of employee education is monitored through feedback from participants (evaluations filled out by participants after the training), and for some training courses through feedback from managers. The feedback shows the company what has to be done to improve internal education processes.

Consequently, certain changes were introduced to Kaufland's educational programmes, such as changing the dynamics of certain courses, and refining their content to better adapt to the needs of the target group, etc.

All employees have equal access to training opportunities, and the only differences arise from the needs of the workplace.

Employee training and education are monitored through indicators, such as the average number of training hours by business area, hierarchy and gender, as shown in the table.



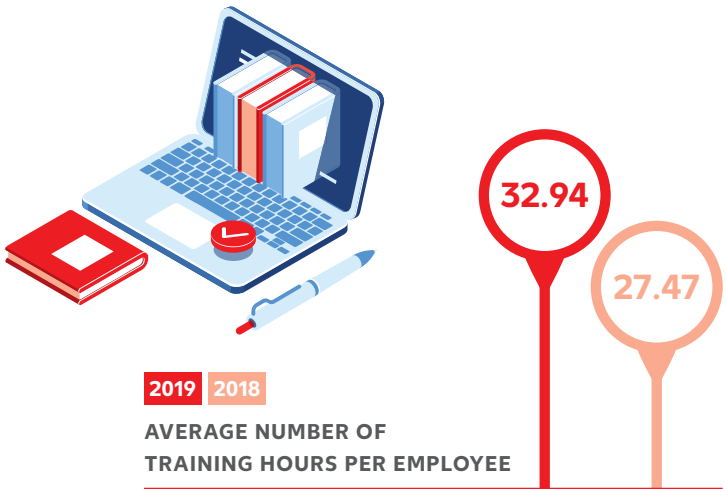
AVERAGE NUMBER OF EMPLOYEE TRAINING HOURS BY BUSINESS AREAS, HIERARCHY AND GENDER

BY BUSINESS AREA	2019	2018
Kaufland headquarters	68.84	65.85
Kaufland sales	27.68	19.44
Logistics centre	26.90	41.21

BY HIERARCHY	2019	2018
Top management	110.49	89.58
Middle and Operational management	61.20	63.00
Non-managerial positions	28.51	22.60

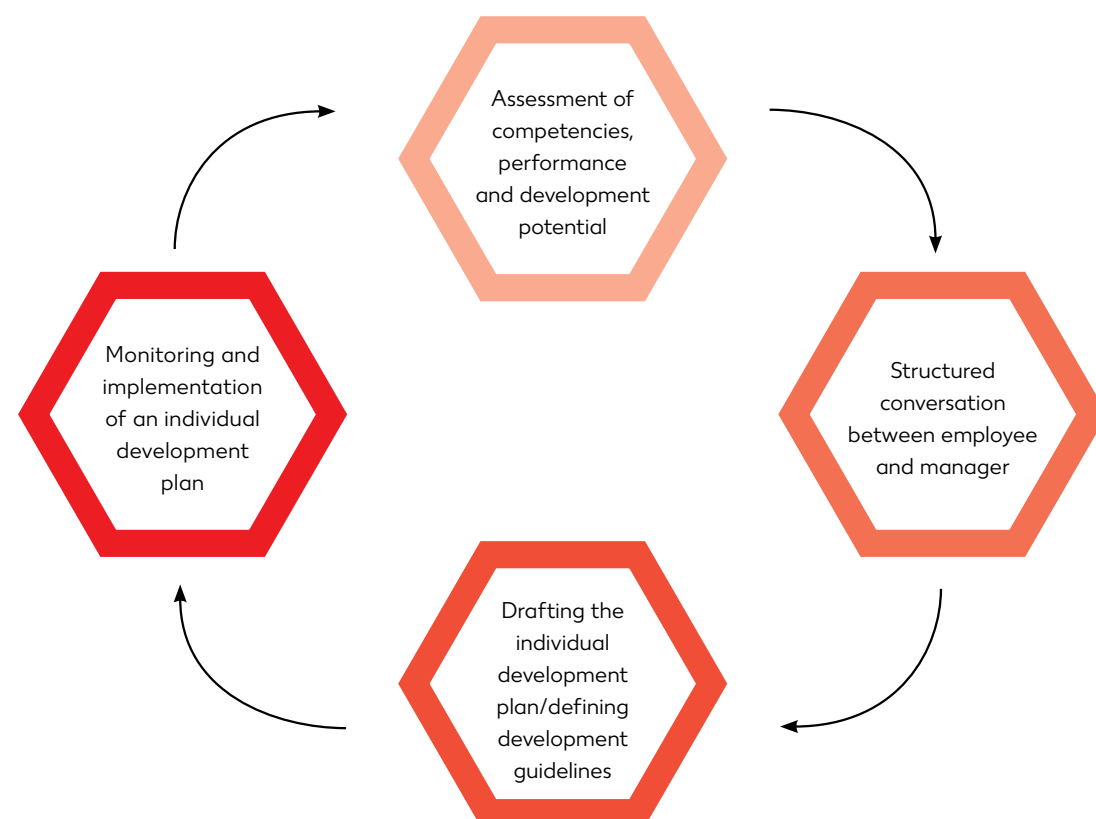
BY GENDER	2019	2018.
Male	43.33	39.92
Female	28.39	22.05

The employee development plan is developed as part of the talent management process. The process begins with an assessment of competencies and performance of employees. Those employees whose overall performance was rated with four or five stars (of the total five), are further assessed for development potential. This is followed by structured interviews between the employee and manager, development of the individualised development plan, and definition of development guidelines. The execution of the plan is then monitored. After 12 months, the process begins again and competencies and performance are reassessed and compared in relation to conduct and work results over the past 12 months.



EMPLOYEE TRAINING AND EDUCATION

TALENT MANAGEMENT PROCESS



No structured interviews were conducted in 2018 to assess work performance and make a development plan. In 2019, all employees who met the conditions participated in structured interviews. Employees who did not meet the conditions were women on pregnancy and maternity leave, employees on long-term sick leave over 42 days, and employees who had not worked long enough under their current supervisor to enable an adequate assessment. Records of the percentage of employees whose work performance and individual development were assessed, and who participated in structured interviews, are not kept separately by gender.

In 2018, Kaufland started its Trainee program, aimed at employing young people who are just starting their careers. Through the Trainee program, young people have the opportunity to gain experience and insight into the business world, receive guidance from a professional mentor, participate in interesting tasks and projects, and then later continue their career in the company after completing the programme and receive an attractive income.

<https://karijera.kaufland.hr/apsolventi/trainee-program.html>

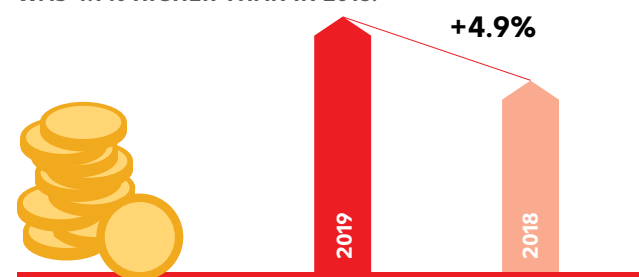
Employees retiring at full retirement age receive a retirement benefit (a one-time bonus) upon submitting the official decision on retirement within 45 days of the start of retirement.

Since 2019, the K-portal for education (a SAP SuccessFactors application) has supported the onboarding process. The application contains onboarding plans for all employees working in Goods or Fresh Goods in the Sales department (77% of new employees in Kaufland).

As a fair employer, Kaufland's wage and benefit policy is based on objective criteria and activities, regardless of gender. Guided by the principle of transparency, Kaufland has a clearly defined salary system.

There are several salary grades, and employees in non-management positions are guaranteed a pay increase in advance. The labour contract lists the salary grades that the employee is entitled to in the forthcoming period. Every year, new employee benefits are introduced, in the sense of additional benefits, pay increases or new pay bonuses.

IN 2019, THE AVERAGE NET SALARY IN KAUF LAND WAS 4.9% HIGHER THAN IN 2018.



GRI 404-3



BUSINESS IMPACTS ON ENVIRONMENTAL PROTECTION



BUSINESS IMPACTS ON ENVIRONMENTAL PROTECTION

Just talking about environmental measures for Kaufland is not enough - actions need to do the talking! In all areas of the company, Kaufland consistently implements measures on environmental and climate protection. Kaufland environmental activities include the application of energy efficient techniques and environmentally conscious design of new buildings, through logistics processes that have the least possible negative impact on climate, to avoiding waste generation.

ENERGY AND EMISSIONS

Kaufland’s energy management aims to encourage energy-conscious employee actions, increase energy efficiency on all properties, and achieve sustainable store management to the greatest extent possible. Through the software management system, it is possible to monitor the energy flows of stores, the logistics centre and headquarters. It is also possible to identify potential for new savings and continuously monitor the implemented energy saving measures. When procuring new technology, energy efficiency is considered in the context of sustainability. This is also applied to all properties.

Kaufland’s energy management in stores, the logistics centre and headquarters in Croatia has been certified according to the ISO 50001 international standard since 2017.

Identification of potential savings and cost reductions

To identify potential savings, consumption data is continuously collected, monitored and verified at all stores.

Thanks to the energy management system, excess energy consumption is detected and avoided in the future. Electricity consumption is monitored in all stores, including total consumption and the individual consumption of the cooling system, lighting, heating and ventilation. Energy information from building management and other data sources are used to simplify the analysis. For example, if lighting consumption in an individual store deviates from the average consumption, the energy manager receives a warning and must implement appropriate measures.

Innovative technologies in practice

For several years, Kaufland has been researching various aspects of how to save energy during construction. Numerous areas for energy savings have been identified and can be applied in the refrigeration system. Before a particular technology can be implemented in a number of stores, it must first be proven effective in practice. The test period allows for further optimisation of the cooling system technology and the interaction of individual components. Improved technology is applied in both ground-floor and multi-storey buildings.

Every new store and every refurbished Kaufland store has exclusively LED lighting in the sales area. The primary environmental goal of each store is to reduce energy consumption and CO₂ emissions.

Industrial cooling system during winter and summer

In the logistics and distribution centre, a natural refrigerant - ammonia (NH₃) is used in the refrigerated warehouses and halls for fresh products. In new stores, only refrigerants that do not negatively impact the climate are used in refrigerated areas.

There is the possibility of leakage of refrigerants in cooling systems. For this reason, leak detectors have been installed to give the maintenance department a timely warning of any leaks. Twice a year, the system is regularly serviced, including controls that there are no leaks in the cooling system installations.

Energy efficient technology is used in stores. The ten newest stores also receive part of their heating from the industrial cooling systems. This technology conserves natural resources: instead of fuel such as oil or gas, stores are heated entirely from the waste heat generating by the cooling chambers.

Thanks to the industrial cooling system, previously unused waste energy has now become useful during winter, and covers a large portion of the necessary amount of heat. Waste heat is used in the industrial floor heating that is laid under the entire sales areas.

In the summer months, additional compressors generate sufficient cooling strength to supply the ventilation system. The industrial floor cooling system means improved ambient temperature indoors. Despite this, waste heat is still used, i.e. for the industrial floor heating in the fresh products section. These departments are heated year round, for otherwise during summer the cooling chambers would cool the space to such an extent that the temperature inside would be uncomfortable.

Enclosed refrigerated display cases

To avoid the loss of cold air, refrigerated display cases enclosed with glass doors or sliding glass covers are part of the standard equipment when opening new or modernizing existing Kaufland stores.



ENERGY AND EMISSIONS

In addition to electricity consumption, Kaufland’s energy management system continually monitors the consumption of other energy sources that, together with electricity, make up the total energy balance. The energy monitoring system enables better analysis and allows for improvements to reduce consumption.

TOTAL ENERGY CONSUMPTION IN THE COMPANY

	Unit of measure	2019	2018
Power consumption	kWh	52,379,963.00	53,248,633.00
Gas consumption	kWh	4,940,088.00	6,553,660.00
Heating oil	kWh	222,962.96	211,012.10
Energy consumption mobile combustion	kWh	4,665,526.44	4,172,963.42
Total energy consumption	kWh	62,208,540.40	64,186,268.52
Space (sales + auxiliary areas)	m²	172,201.80	171,917.20
Total energy consumption per m² of sales and auxiliary areas	kWh/m²	361.25	373.36

Reducing energy consumption

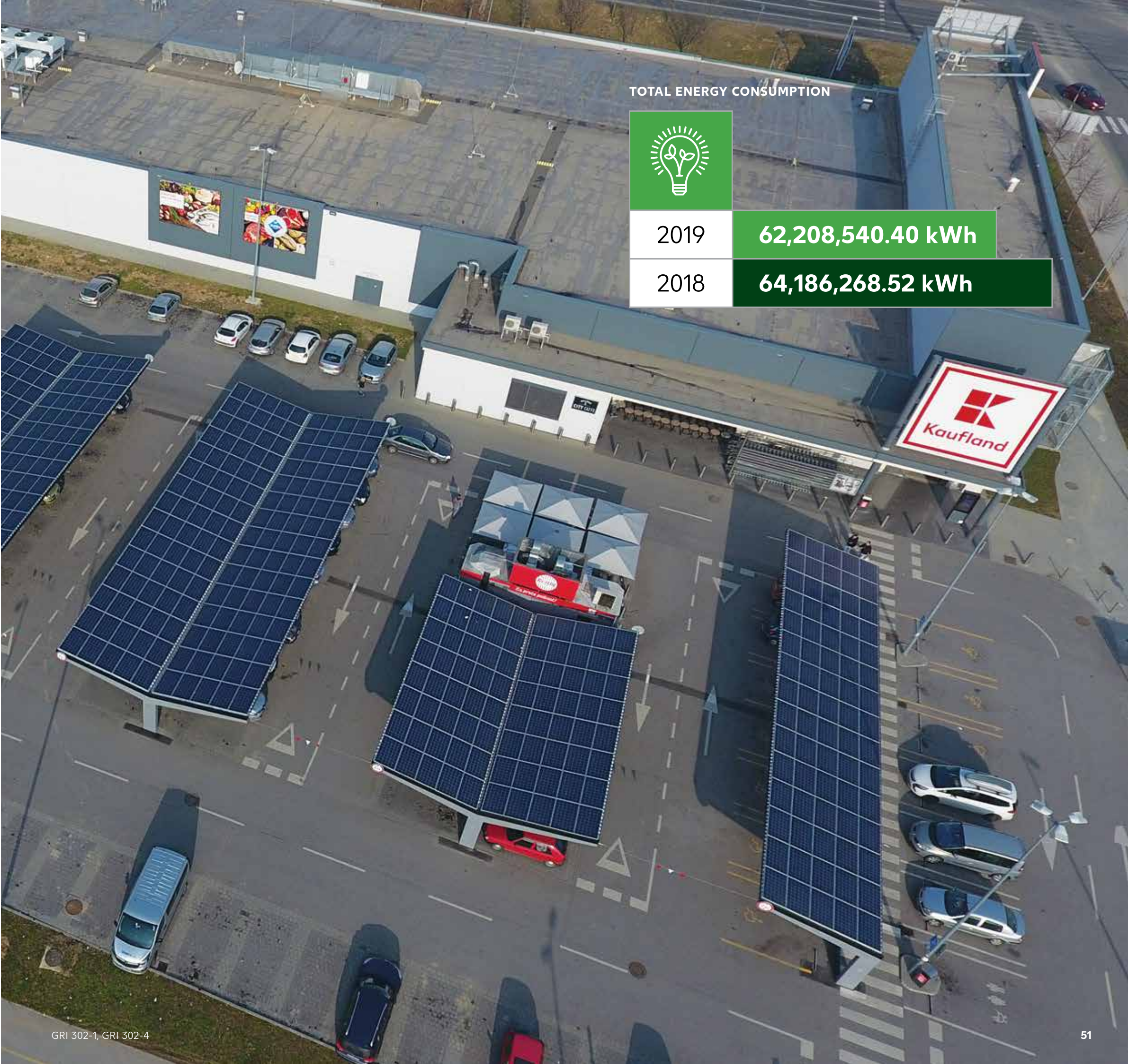
At the Kaufland Blato store, existing parking areas were refurbished to generate electricity from renewable energy sources - by building the Solar Carport, a carport with built-in PV panels.

- six connected solar carports with a total area of 1,266 m²
- 755 photovoltaic panels
- annually generates 207,000 kWh electricity, covering 17% of the store’s demand

In 2020, a photovoltaic solar system was installed on the store roof in Šibenik and is now functional.

ELECTRICITY GENERATION (kWh)

2019
2018



TOTAL ENERGY CONSUMPTION



ENERGY AND EMISSIONS

In 2018, e-car charging stations were installed in the parking lots of five stores.

During 2019, a total of 8,720 charges were registered at these stores, consuming 101,338.06 kWh electricity.

NUMBER OF CHARGES AND ENERGY CONSUMPTION FOR E-CARS IN 2019

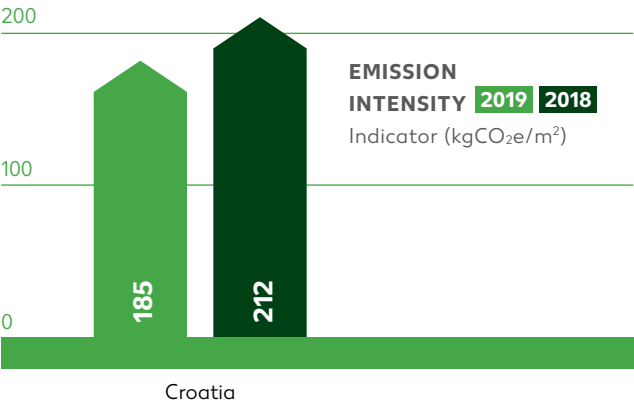
	Number of sessions	Total energy (kWh)
Umag	1,691	18,582.48
Šibenik	661	11,408.62
Zadar-Sinjoretovo	887	10,463.59
Zagreb-Sloboština	2,273	25,592.56
Kaufland-Blato	3,208	35,290.81
Total	8,720	101,338.06

An advanced electrical transformer has been installed in the Kaufland Pula store to improve the quality of power supply. This means working at the optimal voltage level, between 216–220 V. When motors (i.e. refrigerated display cases, ventilation and air conditioning system) or lighting operate at a voltage above the optimum, unnecessary heat is produced and energy is wasted.

- The Power Perfector optimizes power supply and provides a 10% saving of electricity.
- This investment will annual save electricity equivalent to the consumption of approx. 56 households in the same period.

Data on the total energy consumption within the organisation was obtained by the direct method based on the purchased quantities of individual energy sources. The source of the conversion factors used is from the Institute for Energy and Environmental Research Heidelberg (IFEU).

INTENSITY OF GREENHOUSE GAS EMISSIONS IN RELATION TO TOTAL KAUFLAND PREMISES (SALES + AUXILIARY AREAS)



Emissions

Kaufland recognises the importance and impact of greenhouse gases on the environment and on climate. The carbon footprint of Kaufland is measured through the monitoring and analysis of greenhouse gas emissions. The introduction of new technology, and use and protection of energy from renewable sources are ongoing measures applied to reduce the emissions of greenhouse gases.

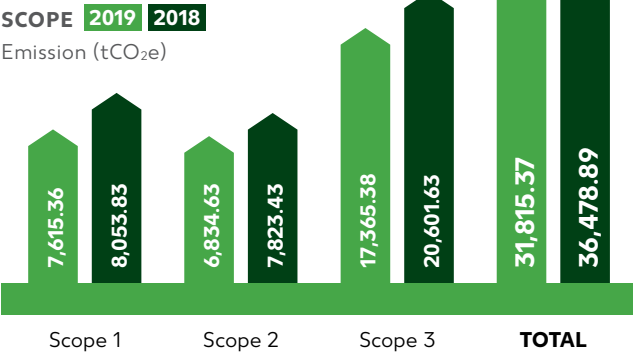
The cost calculation of the industrial refrigeration cooling system is obtained in several ways: this system ensures reductions in both energy costs and CO₂ emissions. This is an important element in improving Kaufland’s environmental footprint. In 2019, Kaufland achieved a positive trend of reducing greenhouse gas emissions, and in comparison with 2018, this decrease (12.8%) is visible in all three scopes that show Kaufland’s greenhouse gas emissions.

The calculation was obtained using the GHG Protocol Corporate standard developed by The World Resources Institute (WRI) and The World Business Council on Sustainable Development (WBCSD) in accordance with IPCC 2006 Guidelines for National Greenhouse Gas Inventories and meets the ISO 14064-1 criteria.

The base year is 2018. The data have been monitored earlier, but additional parameters were not taken into account until 2018, when the calculation of indicators and detailed analysis began.



INTENSITY OF GREENHOUSE GAS EMISSIONS IN COMPARISON TO TOTAL SURFACE AREA OF KAUFLAND PREMISES (SALES + AUXILIARY AREAS)



GRI 305-1, GRI 305-2, GRI 305-3, GRI 303-4 (2018), GRI 303-5 (2018)

- **Direct GHG emissions (Scope 1)** are the result of activities owned or under the control of Kaufland. Includes emissions directly generated within the company.
- **Energy indirect GHG emissions (Scope 2),** headquarters are the result of purchased or obtained electrical energy, heating and cooling consumed within Kaufland. Includes emissions generated from the production of energy Kaufland purchased from suppliers.
- **Other indirect GHG emissions (Scope 3)** include GHG emissions not included in energy indirect (Scope 2) GHG emissions occurring outside Kaufland, including both upstream and downstream emissions. Scope 3 includes other emissions, such as commissioned logistics, Kaufland magazine distribution and paper consumption.

Due to the electricity production from renewable energy sources (PV panels on carports), CO₂ emissions at the Kaufland Blato store were reduced by 78 tonnes per year. With the installation of the advanced electricity transformer Power Perfector in the Kaufland Pula store, the annual reduction of CO₂ emissions is 47 tonnes.

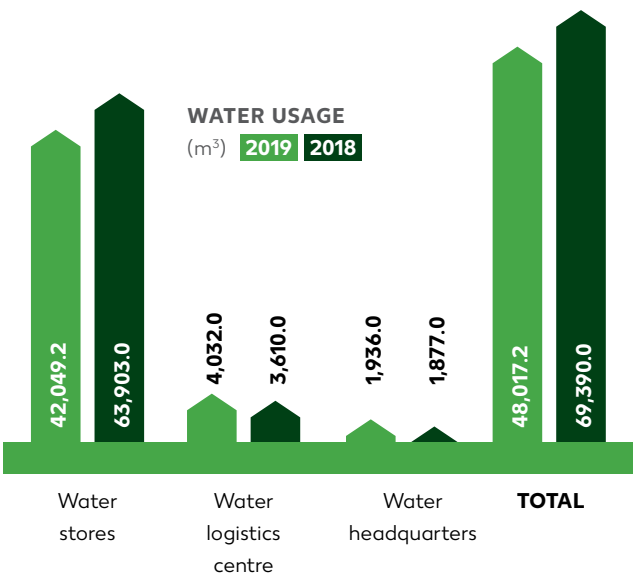
Reductions in CO₂ emissions are the result of projects to create savings in electricity and gas consumption in Kaufland stores and the logistics centre, and also through continuous monitoring of consumption and taking preventative and corrective measures where consumption deviates from the average level.



WATER

Water is one of the most important resources for life. At Kaufland, water consumption is monitored daily in all stores, headquarters and the logistics centre. Water is supplied from the local water supply system. Consumption is rationalised through efficient management and new technologies. Examination of the trends in 2018 and 2019 showed a more than 30% overall reduction in water consumption.

Wastewaters are equal to consumption. Water is discharged from the internal system into the public drainage system.



WASTE

Waste management is regulated as follows:

- 1. primary sorting of waste by fractions at the site of origin,
- 2. disposal of separate waste fractions in reception containers or on load carriers,
- 3. removal and disposal of waste fractions in the defined manner through authorized companies.

This waste management system avoids threats to human health, risks of soil, water or air pollution, and the risk of explosion, fire or other accidents.

As a seller of one-way packaging beverage products, Kaufland has recognised the problem of the disposal of this packaging in the environment. Funds were invested to procure automated disposable packaging return machines for plastic, glass and metal beverage bottles. In 2019, 36 stores had installed this automatic return device (TOMRA) with a special upgrade unit for crushing PET packaging. As a result,

customers return this packaging to the store, and it is not discarded into the environment. Kaufland delivers the packaging to authorised packaging waste collectors who perform primary coarse separation, after which the PET is baled and taken for rinsing from residual impurities. The material is then mechanically ground into granules.

In 2019, 41 devices for baling cardboard packaging and 5 devices for baling packaging foil were installed at Kaufland stores. The produced bales weigh 450–600 kg, which transfers a larger mass per unit volume per round to the waste collector.

Kaufland cooperates with partners who can ensure that recovery and/or disposal operations are less harmful to people and the environment. Food waste is handed over for recovery to biogas plants where fermentation gas is used to produce energy. Waste edible oil is handed over to partners who use this raw material to produce biodiesel fuel.

QUANTITIES OF WASTE BY FRACTION IN 2018 AND 2019 (EXPRESSED IN TONNES AND PERCENTAGES)

WASTE CATEGORY AND DISPOSAL METHOD	2019	2019	2018	2018
Paper, multi-component paper and cardboard	6,646	42.12%	6,402	45.60%
Organic waste	2,486	15.75%	2,466	17.56%
PET	1,675	10.61%	1,482	10.55%
Plastic	429	2.72%	360	2.56%
Wood	148	0.94%	189	1.35%
Residual non-recoverable waste	1,224	7.76%	481	3.43%
Glass	2,524	15.99%	no data collected	no data collected
Metal scrap	69	0.44%	no data collected	no data collected
Other non-hazardous waste	530	3.36%	2,661	18.95%
Hazardous waste	49	0.31%	no data collected	no data collected
TOTAL WASTE:	15,780	100%	14,041	100%



WASTE

Kaufland monitors the consumption of all materials it uses. This enables the company to have insight into resources and their availability according to consumption. The monitoring process results in an approach for the selection of recycled materials or their reuse.

Kaufland’s customer leaflets are primarily printed on FSC®-labelled paper from proven responsible sources. Offices and stores also take care of the environment and primarily use recycled paper for printing and copying documents, for printing official correspondence, etc.

QUANTITIES OF CONSUMED MATERIALS IN 2018 AND 2019 (EXPRESSED IN TONNES)

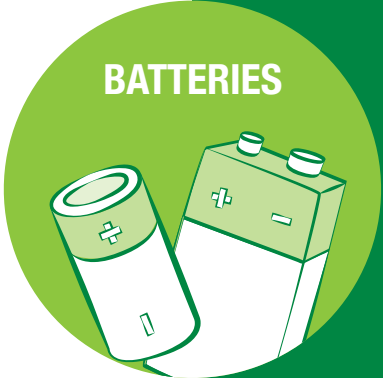
CATERGORY	2019	2018
Advertising material - fresh fibre	3,830.0	4,348.0
Printing paper - fresh fibres	7.0	9.0
Printing paper - recycled	19.0	12.0
Garbage bags	15.0	17.0
Plastic bags / bags for fruits and vegetables	95.0	101.6
Stretch film (packaging material)	98.0	46.0
The data shown refers to the legal year.		

WASTE SEPARATION SYSTEM IN LOGISTICS

As part of the campaign “Wertstoffe wertschätzen” (“Valuing recyclables”), each of the four halls within the Logistics Centre in Jastrebarsko were analysed in cooperation with the company GreenCycle, part of the Schwarz Group in 2017. Based on the results, disposal areas for individual waste fractions were planned and set up. The primary focus was to facilitate sorting for employees and ensure optimal waste collection. These measures increased the sorting quota of individual waste groups, due also in part to the standardized icons used across the entire Schwarz group.

Special attention is paid to municipal waste, as almost 3/4 of municipal waste is, before separation, made up of recyclable materials that can be reused or converted into other products.

Proper waste sorting is a great economic and environmental potential that should be implemented in order to achieve Kaufland’s goals, i.e. reducing mixed municipal waste by separating waste fractions and preparing fractions for recycling. This is part of the company’s contribution to protecting the environment and the workplace.



COMMITMENT TO THE COMMUNITY



COMMITMENT TO THE COMMUNITY

A commitment to the community is immensely important to provide customers with a shopping experience that positively affects their society and the environment. Commitment to the community in which Kaufland operates through corporate social responsibility is an important component of the company's business policy and ongoing focus.

Since the opening of the first stores in Croatia, Kaufland has contributed to community-building through partnerships and socially responsible programmes, projects, donations and sponsorships that create a positive impact on the broader communities. Therefore, Kaufland is always ready to engage and help the community in which it operates.

Examples of Kaufland projects are outlined below, showing how the company directly contributes to the communities.

At Kaufland, donations and sponsorships with a socially responsible purpose are granted in accordance with clearly defined guidelines. These, and other activities, are managed by the Corporate Communications Department.



COMMITMENT TO THE COMMUNITY

Actions, not words, make the community happy

In anticipation of the Christmas holidays, Kaufland conducted the charity campaign “Actions, not words, make the community happy”. In each town with a Kaufland store, 5,000 kuna was donated to a local association or organisation. In total, the donations amounted to almost 200,000 kuna. In this way, Kaufland assisted the local community where it operates, and the donations were primarily granted to associations assisting disabled children and societies for disable persons.

Join in today for a better tomorrow

Kaufland has been advocating the well-being of children for many years. As part of the charity campaign “Join in today for a better tomorrow”, Kaufland donated 300,000 kuna to UNICEF to support programmes for children and mothers by sourcing part of the necessary equipment for maternity hospitals in Croatia.



Humanitarian booth

Every year, a humanitarian booth is set up in Kaufland stores. Kaufland enables charity organisations to set up a free booth where donations can be collected, or donation contracts signed.

Kaufland School of Fruits and Vegetables (ViP)

A current issue among children is excessive exposure to all types of food products, especially those high in sugar, salt or artificial substances. The resulting increase in the number of obese children in the world, including Croatia, is alarming. The socially responsible project “Kaufland School ViP” has recognised this urgent problem and the need to develop healthy habits in primary school children.

This project launched in 2017 donates fresh fruits and vegetables to children in partner primary schools throughout the school year, to ensure an additional healthy meal during school hours.

Every school year, a creative competition is held and all public primary schools are eligible to apply. The most successful ones were named Kaufland ViP schools for that school year.

More information about Kaufland’s ViP project is available at: kaufland.hr/skolavip

QUANTITATIVE SUCCESS INDICATORS OF KAUF LAND VIP SCHOOLS

KAUFLAND SCHOOL VIP	Number of pupils	Number of schools	Quantity of donated fresh fruits and vegetables (kg)
School year 2017/2018	12,335	24	91,378 kg
School year 2018/2019	15,970	38	117,640 kg
School year 2019/2020	19,053	39	98,851 kg*
UKUPNO			307,869 kg

* Due to the Covid-19 crisis and the closure of schools and subsequent limited reopening in the school year 2019/2020, smaller quantities of fruits and vegetables were donated than planned. The amount that could not be donated to schools was redirected to Red Cross societies throughout Croatia.



Green Day

In September 2018, Kaufland employees at 40 locations throughout Croatia participated in a volunteer campaign to clean up and plant school gardens together with pupils from partner schools. As part of the campaign, Kaufland donated over 2,000 different seedlings and tool packages worth almost 50,000 kuna.

Green Week

In 2019, over 150 Kaufland employees participated in a volunteer campaign that was extended to a whole week. This time employees cleaned national parks and nature parks throughout Croatia from 24 September to 4 October 2019. They volunteered in six nature parks (Papuk, Lonjsko Polje, Kopački Rit, Medvednica, Žumberak and Biokovo), in four national parks (Brijuni, Krka, Paklenica and Risnjak) and in areas managed by the Varaždin County Institute for Nature Management.

Collecting donations for the Croatian Red Cross

For several years, grocery collection baskets have been set up in Kaufland stores three times per year. The Croatian Red Cross distributes the donated goods to those in need and to soup kitchens. Customers regularly have the opportunity to help those in need, by purchasing dry goods such as flour, oil, rice, pasta, tinned goods, etc. and then donating them to the basket.

DONATIONS FOR RED CROSS (kuna)



COMMITMENT TO THE COMMUNITY

Milky Way UNICEF

For three years in a row (2017, 2018 and 2019), Kaufland supported the UNICEF Milky Way charity race as the "Main Star", the main race sponsor. The campaign raises money to establish a human milk bank, to provide equipment for foster families and to raise funds to improve conditions in maternity hospitals nationwide.

More than 2,000 runners participated in this charity race in 2017, more than 2,500 children and adults in 2018, and over 2,300 runners in 2019. The Kaufland employees and their children participated in all races.

Regular blood donation campaigns at headquarters

Blood donation is regularly organised for the employees of Kaufland headquarters. All company employees are invited to take part and receive a day off on the day of blood donation.

Employment of people with disabilities

As a socially responsible company and an employer that achieves excellence in human resource management, Kaufland has recognised that employment is of the utmost importance in the lives of people with intellectual disabilities. In June 2019, cooperation was established between the Kaufland Logistics Centre and the Ozalj Community Service Centre to include beneficiaries of the centre, i.e. people with intellectual disabilities, in the community as equal members of society. The mission of the Centre is to provide support to children, youth and adults with intellectual disabilities through active involvement in the community for quality living.



The opportunity for centre beneficiaries to work at Kaufland is of key importance, as this cooperation enables the integration of people with intellectual disabilities into the work environment, significantly increasing their active role in working life. Three days a week, a team of Kaufland employees is joined by 12 centre beneficiaries who take turns according to the weekly schedule. Centre beneficiaries are highly motivated to work and are proud to have the opportunity to work in the modern logistics and distribution centre in Jastrebarsko.



Hospital donations

To celebrate the anniversary of the opening of six Kaufland stores in October 2019, the company donated 10,000 kuna to the Paediatric Clinic of Osijek Clinical Hospital, Paediatric Clinic of Vinkovci General Hospital, Department of Health Care of Infants and Preschool Children of the Kutina Health Centre, Paediatric Department of Požega General Hospital, Paediatric Department of Nova Gradiška General Hospital and the Paediatric Clinic at the Dugo Selo Health Centre.

SUSTAINABLE ASSORTMENT



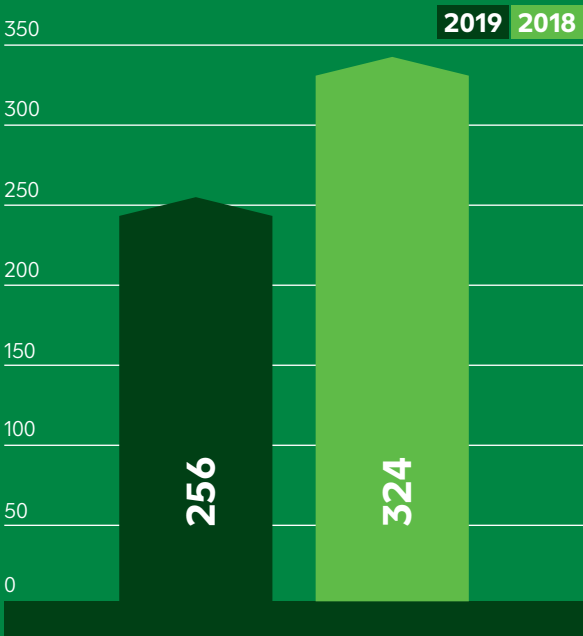
SUSTAINABLE ASSORTMENT

As a retail chain, Kaufland pays special attention to offering a sustainable product assortment. Advocating for responsible production conditions, animal welfare and conservation of nature and the marine environment is an important component of corporate policy. Through this, Kaufland takes responsibility for the environment and shows its deep concern for climate change, the scarcity of natural resources and biodiversity loss, which is becoming more important than ever.

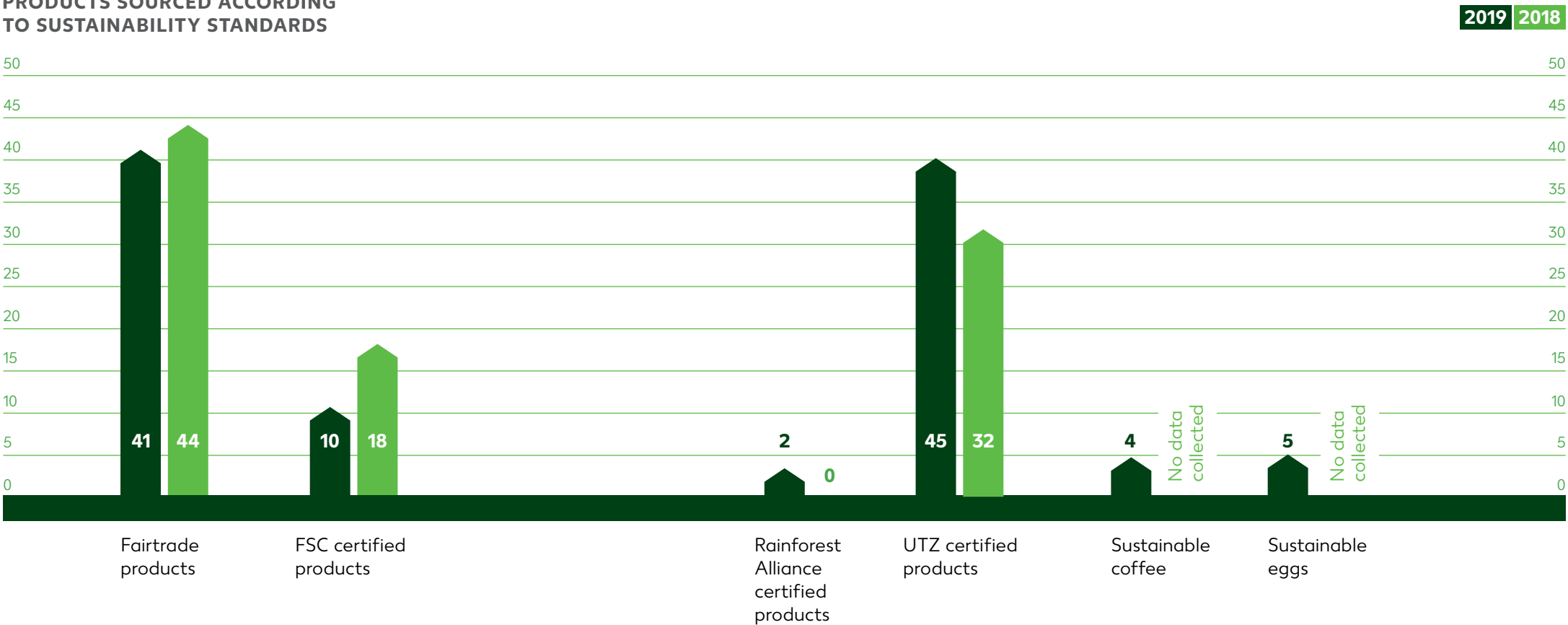
By supplying a retail assortment with a vision for the future, Kaufland pays special attention to the sustainable selection and packaging of the assortment through its commitment to responsible production conditions, suitable animal husbandry conditions and the preservation of marine diversity.

Kaufland is aware of its responsibility toward humankind and nature and stands behind the Detox campaign of the independent global organization Greenpeace for quality and safety in the production of clothing, home textiles and shoes. All polo shirts and employee work shirts bear the world's leading cotton certificates: Global Organic Textile Standard (GOTS) and Fairtrade, meaning that these items contain no harmful substances and were produced exclusively with organic cotton in controlled and fair working conditions.

QUANTITY OF ORGANIC PRODUCTS IN 2018 AND 2019

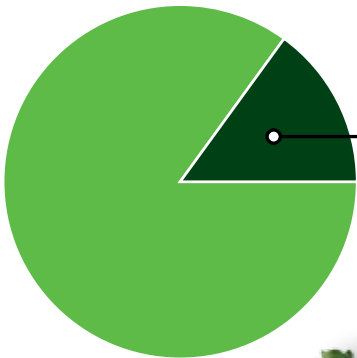


PRODUCTS SOURCED ACCORDING TO SUSTAINABILITY STANDARDS



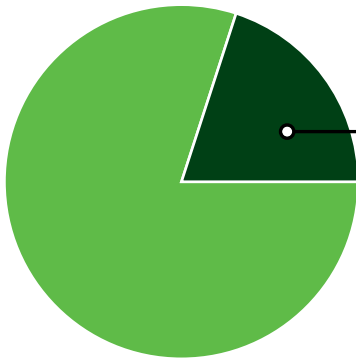
Pesticide analysis for fruits and vegetables

Kaufland delivers about 150 fruit and vegetable products to an independent laboratory in Germany for analysis for pesticide residues on the annual basis. From 2020, the goal for each product in the assortment is to pass pesticide residue control at least twice a year. All Kaufland producers, in addition, must be certified by the GlobalGAP certificate, which guarantees the full application of legal regulations and rules of good production practice in all steps of agricultural production.



15%

Percentage of sustainable coffee in coffee assortment private label brands



20%

Percentage of sustainable eggs in eggs assortment





RAINFOREST ALLIANCE CERTIFIED™ PRODUCTS

Kaufland's sustainable assortment offers products made with coffee beans from Rainforest Alliance Certified™ farms, such as K-Classic coffee with milk. In doing so, we support sustainable coffee production. The Rainforest Alliance is an independent and non-profit international organisation committed to biodiversity conservation and securing the well-being of farmers, their families and local communities in production countries.



FAIRTRADE PRODUCTS

Fairtrade certification stands for compliance with fair working and trade conditions in the production process in which workers and farmers are paid fairly for their work. Fairtrade supports producers in Africa, Latin America and Asia and advocates better living and working conditions, and environmentally friendly production. Kaufland offers a wide assortment of products from various Fairtrade certified producers – from coffee and tea to cocoa, fruit juices, wine, chocolate, spreads, pastries, rice, sugar and bananas, even flowers.



COCOA WITH THE UTZ CERTIFICATION

Kaufland supports the UTZ programme. Since the K-Classic chocolate products are UTZ certified, the company contributes to improving the environmental acceptability of cocoa cultivation and improving economic and social conditions in the countries of cultivation. UTZ's mission is to create a world in which sustainable cocoa production is the standard. This process is encouraged through constant education and counselling of cocoa growers in the countries of cultivation on the one hand, and by the demand for certified chocolate products in the countries that buy cocoa on the other.



ORGANIC PRODUCTS

Kaufland's assortment includes numerous organic products and bioproducts in a range of categories – from fruits and vegetables to dairy products, beverages, coffee and tea, to tinned and frozen products. Many of these products are part of Kaufland's K-Bio brand assortment. The EU-Bio logo makes it possible to identify products manufactured in accordance with the strict eco-regulations of the European Union, which are regularly controlled by independent, officially recognised institutions.



FSC®-CERTIFIED PRODUCTS

The K-Classic assortment includes FSC®-certified products, certified for employing responsible forest management practices according to the strict guidelines of the Forest Stewardship Council®.

The Kaufland FSC® assortment includes products such as Kidland wooden toys, hygiene products such as toilet paper and wipes, and barbecue charcoal. To conserve natural resources, all raw materials for cardboard packaging of K-Classic juices and other packaging come from responsible forest management and are FSC® certified.

In addition to its private label brands, the Kaufland assortment also includes 144 products with FSC®-certified packaging.



GOTS CERTIFIED TEXTILES

Many household textile products and Kaufland brand clothing have a high proportion of organic cotton and are GOTS certified, guaranteeing environmentally and socially responsible textile production.

GOTS stands for the Global Organic Textile Standard, which provides globally recognised guidelines to ensure sustainable textile production. Starting with the process of procuring organically produced, natural raw materials, through environmentally and socially acceptable production, all the way to transparent labelling.

SUSTAINABLE ASSORTMENT

PRODUCTS CATEGORISATION IN 2018 AND 2019

TYPE OF PRODUCT	2019	2018
Products of national suppliers (listed items of all suppliers based in Croatia)	11,301	10,660
Private label brands	1,173	1,164
Brand products	12,515	11,785
Products that are excluded are only those temporarily available, seasonal products and non-food products.		

VEGETARIAN AND VEGAN PRODUCTS

At Kaufland, an increasing number of vegetarian and vegan products are sold in all product groups, such as meat substitutes, dairy products and spreads. These products are a responsible alternative for vegans and vegetarians, and all other customers.

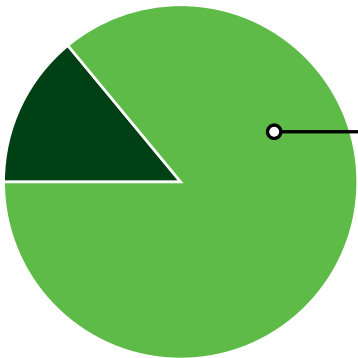
The K-take-it-veggie assortment offers a number of delicious and affordable high-quality alternatives, and many are even bio-certified. For easier recognition, vegetarian and vegan products in the remaining assortment of Kaufland brands bear the "V" sign, in accordance with the regulations of the European Vegetarian Union (EVU).



SUSTAINABLE ASSORTMENT

Support for domestic producers

Kaufland offers its customers a large selection of local products such as dairy products and cured meat specialties, which varies depending on the region and season. Short transport routes preserve the climate and strengthen local producers.



82%
Percentage of products from national suppliers (%) in 2018 and 2019 is 82%



In terms of the value of procurement in the food and non-food product assortments, **78% of goods are sourced from suppliers in Croatia**, and 22% from suppliers outside Croatia. In terms of the number of suppliers, **58% are from Croatia**, and the rest from other countries.

During its almost 20 years in Croatia, Kaufland has established cooperation with numerous domestic producers. In 2018, this cooperation resulted in the campaign entitled "Croatian suits me best" (*Naše mi najbolje paše*), and with it, cooperation was expanded in the brands K-Classic and K-Favourites. From Slavonia to central and northwestern Croatia, to Istra and Dalmatia, Kaufland works with more than 40 producers. The mark "Croatian suits me best" guarantees the use of Croatian raw materials, ingredients of Croatian origin, Croatian producers, traditional recipes, and original flavours.



ANIMAL WELFARE



KAUFLAND'S APPROACH TO FOOD PRODUCTION OF ANIMAL ORIGIN

Animal protection is very important to Kaufland, which is why the conditions for breeding animals are being actively improved, thus guaranteeing more responsible production of products of animal origin.

Kaufland applies clearly defined guidelines in its care of animal welfare in animal husbandry. This implies the more responsible production of foods of animal origin. Above all, this excludes all animal keeping conditions that represent animal torture, improves animal welfare standards in all production facilities, and complements the assortment with products that put special emphasis on animal welfare in production processes.

In defining the requirements and implementing measures, the International Standards for Animal Welfare and the Five Freedoms of the World Organisation for Animal Health (OIE) were taking into account:

1. Freedom from hunger, malnutrition or thirst.
2. Freedom from fear and distress.
3. Freedom from heat stress or physical discomfort.
4. Freedom from pain, injury and disease.
5. Freedom to express normal patterns of behaviour.

Regular product quality controls are conducted at Kaufland in the categories:

- a) Fresh meat products,
- b) Regional private label brands that are not fresh meat,
- c) International private label brands that are not fresh meat,
- d) Fruits and vegetables.

Further targeted communication measures are aimed at raising awareness about more responsible consumption of foods of animal origin.

In order to achieve these goals, the following is important:

- Create transparency along the entire supply chain
- Intensive cooperation and regular exchange of information with suppliers, non-governmental organisations, scientific institutions, policy-makers, and the profession
- Requiring suppliers to implement and abide by the defined standards and requirements, even if they are stricter than the legal requirements
- Regular visits and controls of the defined criteria for suppliers that are performed on site at Kaufland's request



Kaufland's own brand food products were subjected to analysis in Croatia, with 80 products tested in 2018 and 159 in 2019. The total number of cases of non-compliance with regulations and voluntary codes in 2018 was 3, and in 2019 was 7. However, in 2018 and 2019, regarding the impacts of products and services on product health and safety, Kaufland identified no cases of non-compliance with regulations and voluntary codes.

100% grown in Croatia

Kaufland cooperates with three Croatian farms holding the SGS Adriatica certificate, which raise pigs according to Kaufland standards. Piglets must be born and raised in Croatia and fed exclusively with GMO-free feed produced in Croatia. With the legally prescribed conditions, additional conditions also apply, such as special toys that reduce animal stress. The standard supply of pork at the butcher's counter is all of Croatian origin, and specially marked with this black label.

No fur products

Through its participation in the "Fur Free Retailer" programme since 2014, Kaufland completely ceased the sale of natural fur products or fur lining. This includes various textile products, fashion accessories and animal toys.



Eggs from alternative breeding

In the production of Kaufland brand products (such as pasta and pastries), the use of eggs from cage free hens is very important. Selected products, such as fresh waffles, bear the mark "with farmed eggs" on the packaging. Kaufland's goal is to ensure that by 2025, its assortment contains no fresh eggs from caged hens or breeding in small groups, nor shall any private label brands processed products contain such eggs.

No plucking of feathers, no overfeeding

Geese and ducks are still plucked or fed excessively during fattening. As the protection of animals is extremely important to Kaufland, this is actively prevented, and such meat has not been included in the Kaufland assortment since 2016.



CONTRIBUTION TO A DIVERSE MARINE WORLD

The world seas are burdened with pollution and overfishing. In order to preserve the marine habitat and ensure fish stocks for future generations, Kaufland is committed to clean seas, fishing that will ensure the continued existence of stocks, environmentally conscious fishing, and organic aquaculture. In addition, products are being chosen carefully, insisting on strict certification guidelines and attaching great importance to information and transparency.

Kaufland’s seafood sourcing guideline is the basis for sustainable assortment selection, and it encourages sustainable consumption. The seafood sourcing policy applies to the entire assortment, regardless of whether they are private label brands or branded products.

The goal is to ensure responsible seafood sourcing and to replace the existing seafood assortment with more sustainable products. This will ensure and expand sustainable fish catches and aquaculture that uses responsible use of available fish quantities. The following goals and measures have been established:

- Complete transparency and traceability
- Refraining from catch methods that have a negative impact on the environment
- Refraining from catching endangered fish species
- Regular dialogue with suppliers, policy-makers, non-governmental organisations, and scientists
- Stimulating sustainable consumption through consumer education
- Abiding by the minimum social and ecological standards.

Long-term preference will be given to certified producers (MSC, Bio, ASC, GlobalGap).

NUMBER OF SEAFOOD ARTICLES IN 2018 AND 2019

	2019	2018
Seafood products	219	205
Sustainable seafood products	35	3

Sustainable seafood with MSC-certification

Kaufland’s assortment of MSC-certified sustainable fishery products is constantly expanding. As an independent and non-profit organisation, MSC is committed to sustainable fishing worldwide.

NUMBER OF ARTICLES WITH MSC-CERTIFICATION IN 2018 AND 2019

	2019	2018
Products with MSC certification	10	No data collected



GRI FP2, GRI FP5

FOOD WASTE REDUCTION



FOOD WASTE REDUCTION

Kaufland is actively engaged in preventing food waste. Even before ordering, the actual quantity of each product required in store is verified. Kaufland’s goal is to meet the needs of customers in terms of quality and freshness and quantity.

The automated system calculates the quantity of items, e.g. of fruits and vegetables, to be delivered to a store based on historical sales data and taking season into account. On the basis of the generated order proposal, the system calculates the current products in stock at the store, and sends the store the final proposal of the order. The store then has the possibility to increase or reduce certain items in the proposed order. After this, the order is generated with the final amounts that are then delivered to the store.

If it is assessed that the proposed quantity is too high, the Procurement department approves a reduction to ensure that the highest quantity of an individual item is sold. The store controls the freshness and quality of items multiple times daily, and lowers the price as required so that the items will sell. In the bakery, the baking schedule is set for every day at the store level. If too many products are baked, daily sales are promoted to ensure the products are sold on time. In 2019, neon baskets were introduced for different store sections with fresh products (e.g. dairy, meat, cured meat products). The chemist section, food and non-food sections display reduced price and soon-to-expire items in these baskets.

Food donations to Caritas

One of the major problems of the 21st century is overproduction and food waste. The donation of food products that are about to expire is another way to reduce food waste. Kaufland and the Caritas network in Croatia have joined forces for years to implement different projects to donate food items that are about to expire.

One of these projects is the donation of food products before the expiration date in order to reduce the amount of food thrown away. In accordance with the legal framework governing food donations, each week, Kaufland employees throughout Croatia separate products that are about to expire and send them to the logistics and distribution centre. Here, they are collected by Caritas of the Zagreb Archdiocese, and distributed to the beneficiaries of soup kitchens and homes in the and other users in their area.

All Kaufland stores throughout Croatia and the Logistics and distribution centre in Jastrebarsko are involved in the food donation process. Through this distribution procedure, these products are able to reach many people in need.

In mid-2019, a project to donate fresh food, i.e. fruits, vegetables and bakery products, was launched in 18 stores. Twice a week, the archdiocese and diocese branches of Caritas come to these stores to pick up fresh groceries left over from the previous day. The goal of this project is to include all Kaufland stores in Croatia.

QUANTITATIVE INDICATORS OF DONATIONS TO CARITAS IN 2018 AND 2019

	Amount of donated products
2019	25,097 kg and 163,340 pieces*
2018	151,852 pieces*
*This refers to fruits and vegetables, bread and bakery products and products close to their best before date.	



RESPONSIBLE SOURCING



RESPONSIBLE SOURCING

Kaufland’s organisational culture is characterised by responsibility and trust. Legal conduct and fair competition are integral parts of management and important prerequisites for the sustainable protection of Kaufland’s entrepreneurial success.

Compliance management system

Infringements of applicable laws can entail financial damages and reputational loss for Kaufland Hrvatska k.d. In addition, such violations can result in personal claims for compensations and criminal consequences for individual employees or members of the corporate body. The actions conducted by the company and its employees are therefore based on the following principle:

“We comply with applicable law and internal guidelines.”

This represents a central corporate principle that is binding for all employees. The company and its management expressly commit to complying and safeguarding this corporate principle.

Against this background the company has implemented a Compliance Management System (CMS), that includes binding CMS-standards. These CMS-standards specify certain requirements and elements to ensure an appropriate level of compliance. An essential element of CMS is that infringements of applicable law and internal guidelines should be avoided and identified violations consequently prosecuted/punished (zero tolerance principle).

Focus areas of CMS are, for example, anti-corruption/anti-fraud, antitrust law and data protection. The measures of CMS include in particular the issuing and communication of regulations (e.g. regulations regarding the handling of benefits and data protection rules), the implementation of training measures, tracking of all internal and external evidence of possible rights infringement.

The company departments responsible for compliance review the effectiveness of the measures described above. In addition, they investigate and clarify all internal and external evidence of rights infringement.

Business partners are informed of Kaufland’s values upon starting a business relationship and at certain intervals during the business relationship.

The company has appointed a compliance manager to carry out systematic compliance of company operations with the applicable regulations. Customers and business partners can report their specific indications of illegal conduct through a designated compliance manager. Privacy is guaranteed and all personal data is processed in accordance with the applicable legal provisions on personal data protection.

Communication and training on ethical business

The notification system BKMS® is available on the Kaufland website, allowing reports of compliance violations to be made from anywhere at any time. Kaufland’s appointed compliance manager processes all notifications received in this manner.

The BKMS® system for filing reports of compliance violations can be accessed at this link: <https://tvrтка.kaufland.hr/kaufland/nase-vrijednosti/compliance.html#online>

All employees, board members and business partners are informed of the organisation’s anti-corruption policies and procedures.

In order to respect business ethics and prevent anti-corruption behaviour, managers and all employees are trained in anti-corruption policies and procedures. Training is held at the beginning of employment and at regular intervals during the employment period for all employees and managers. Furthermore, regular training of all employees is conducted in the form of mandatory online courses on subjects such as codes of conduct and personal data protection.

NUMBER OF TRAINING HOURS BY TYPE IN 2018 AND 2019

COURSE TYPE	2019	2018
Compliance	381	388
Combatting corruption	82	64
Conflicts of interest	251	234
Protection of personal data	648	2,860
Cartel law	76	190
Combating discrimination	2,911	0
Total	4,349	3,736

Kaufland has signed the Schwarz Group Human Rights Policy Statement, thus taking on the obligation of respecting, promoting and protecting human rights throughout all stages in the supply chain through responsible procurement policies and practices.



GRI 102-16, GRI 102-17, GRI 205-2, GRI 417-1, GRI 417-2, GRI 417-3

Responsible communication and product labelling

All products sold at Kaufland must be labelled in accordance with the valid existing legislation. Kaufland does not specifically require suppliers to comply with legal regulations – it is their obligation. All safety and technical regulations and standards, as well as the provisions of applicable laws relating to food, tobacco products and consumer protection must be complied with. The supplier is obliged to place the legally prescribed label on each individual product that is for sale.

The supplier assumes a guarantee for its deliveries in accordance with legal regulations. This also applies to possible violations of the rights of protection of third parties by delivering goods. In cases of a breach in the contractual obligations related to the material and legal defects of goods delivery, if this results in Kaufland’s liability to third parties, the supplier has the right to recoup the damage caused to Kaufland.

The declaration’s composition is defined by law depending on the type of goods. The Quality Assurance department of Kaufland drafts declarations for its private label brand on the market. Goods of other brands are declared and the supplier is responsible for the declaration.

Organisational procedures for data and labelling of products and services that operate in accordance with the legal framework prescribe the labelling of products that can be grouped as follows according to their impact on society and the environment:

	(YES or NO)
Indication of the source of components of the product or service	Yes, prescribed by law
Content, in particular with regard to substances that may affect the environment or society	Yes, prescribed by law
Safe use of the product or service	Yes, prescribed by law
Product disposal and environmental/social impacts	Yes, prescribed by law

Product labelling according to impact on society and the environment

In 2018 and 2019, no incompliances with regulations and voluntary codes regarding marketing communications, including advertising, promotion and sponsorship were identified for Kaufland. However, there were 7 cases of non-compliance with regulations related to the labelling of goods resulting in a penalty in 2018, and 8 such cases in 2019.

SUPPLY CHAIN SUSTAINABILITY

Kaufland conducts fair negotiations with its suppliers, within the framework of the Supply Chain Initiative, launched in Brussels in 2013. Kaufland has voluntarily committed to adhere to and put into practice the ten principles of fair business practice in the food supply chain.

Long-term and sustainable relationships with suppliers form the basis of Kaufland’s business model. Every day, customers’ wishes and needs are met with a diverse, sustainable and regional assortment of high-quality fresh products at affordable prices. This can only be achieved in cooperation with suppliers; therefore, fair business practice and partnership come first for Kaufland.

The central element of the voluntary Initiative is the Internal Complaints Office, which companies regulate as part of their obligation. This office can be contacted whenever one of the business partners considers that the other party is not behaving in accordance with good business practices. Kaufland fulfils this obligation by allowing suppliers who also participate in the voluntary Supply Chain Initiative to report problems quickly and easily via Kaufland’s online BKMS® notification system, available on the company website.

All private label brands, both national and international, are produced by producers holding one of the valid GFSI (Global Food Safety Initiative) certificates: BRC or IFS.

If the supplier who produces its private label brands does not hold one of these certificates, the supplier is audited by an authorised certification body to determine whether the supplier/producer meets the requirements necessary to produce products of its own brand. If the supplier/producer meets the audit criteria, measures to be fulfilled are defined and their deadlines set. Further, a deadline is given to obtain one of the valid food safety certificates.

For high-risk products such as fresh meat, it is not enough for the producer to have a valid certificate, and a certified auditor also carries out an audit on behalf of Kaufland.

There are an estimated 1500 suppliers from Croatia and abroad in the Kaufland supply chain. In 2019, Kaufland Hrvatska k.d. was supplied by 967 suppliers.

There were 564 Croatian suppliers and other suppliers were from 25 different countries.

SUPPLIER SPECIFICATION BY COUNTRY:

SUPPLIER COUNTRY	Number of suppliers
Croatia	564
Germany	144
Poland	49
Italy	45
Czech Republic	29
Austria	20
Netherlands, Slovenia (each)	18
Hungary	15
France	9
Romania	8
Belgium, Denmark, Greece, Slovakia (each)	6
Estonia	5
North Macedonia	4
Bosnia and Herzegovina	3
Bulgaria, Switzerland, UK, Ireland (each)	2
Finland, Lichtenstein, Latvia, Serbia (each)	1

Kaufland nurtures long-term cooperation with its suppliers. FMCG, better known as consumer goods, is an extremely dynamic industry and business cooperation is conditioned by market trends and, above all, the demand for goods.

In the Fruits and Vegetables and Fresh Meat sectors, Kaufland cooperates with direct producers from Croatia. Since entering the Croatian market, this cooperation has developed to now include 56 direct producers of fruits and vegetables.

At the beginning of every cooperation with suppliers, Kaufland signs a Code of Conduct with each one of them. In order to be understandable for everyone, this Code of conduct is available in Croatian, English or German language. It is based on international standards and guidelines, such as the principles

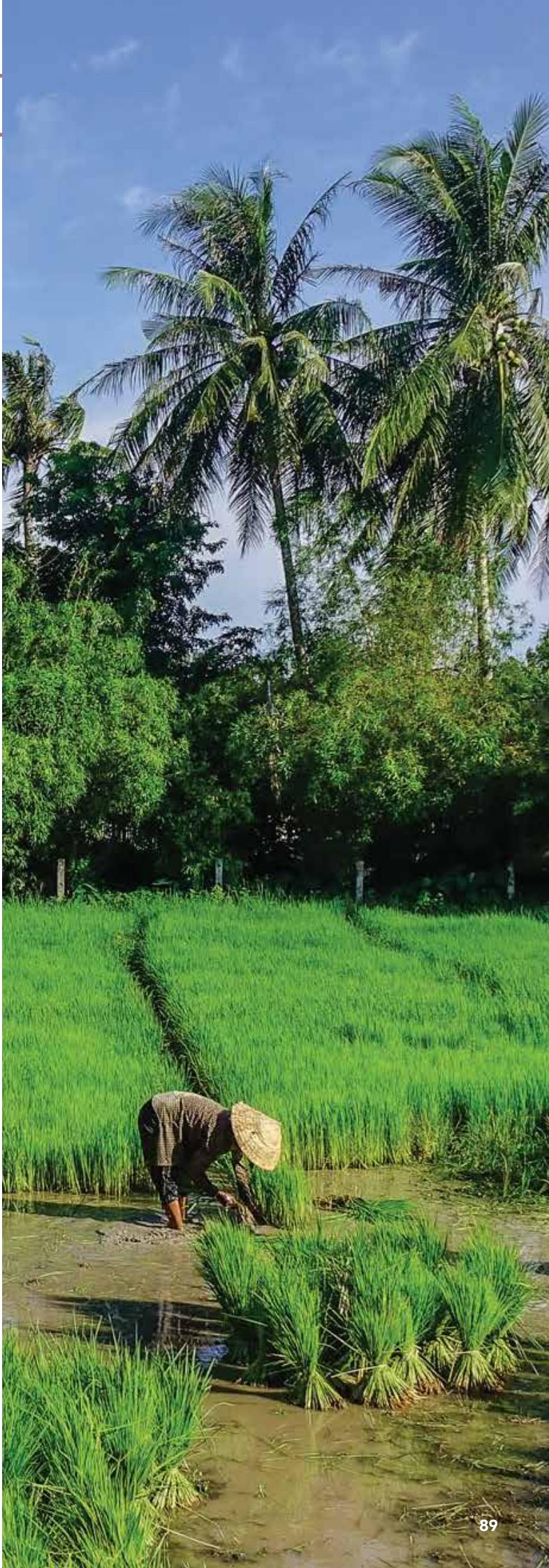
of the International Labour Organisation (ILO), UN General Declaration on Human Rights, UN Convention on the Rights of Children, principles of the UN Global Compact, and the OECD guidelines for multinational companies. By signing the Code of Conduct, business partners undertake to comply with national laws, regulate working hours, deliver employment contracts, protect the environment and combat discrimination, forced labour, child labour and corruption, therefore guaranteeing employee safety, health, freedom of association and the right to collective bargaining.

Furthermore, all merchandise suppliers are provided with Codes on compliance with the legal regulations in business, and food suppliers receive Codes on compliance with the principles of good practices in the food supply chain.

Suppliers screened using social criteria

In relation to compliance with the Kaufland Code of Conduct for Business Partners, suppliers are classified as low-risk, risk or high-risk suppliers, depending on the origin of the goods they deliver. For this reason, all business partners sign the Kaufland Code and agree to the possibility of a social audit to be conducted by a third party.

To ensure compliance with the agreed standards, internal and external auditors implement announced and unannounced inspections at the supplier’s facilities. In the event shortcomings are revealed, remedial measures are given and regularly monitored. In this way, the company takes responsibility and directly contributes to better working conditions.



RESET PLASTIC



RESET PLASTIC

Complete removal of plastic bags at Kaufland Hrvatska k.d.

Retail plays an important role in the context of plastic reduction. Kaufland is also aware of this and acts: as of 1 January 2020, it was the first retail chain in Croatia to abolish disposable plastic bags at checkouts. Disposable plastic utensils such as cutlery, plastic ear sticks and straws were also removed and replaced with alternative sustainable solutions such as paper products, wood, etc.



Kaufland Hrvatska k.d. is part of the Schwarz Group. For the core business of Kaufland Hrvatska k.d. – the trading of food products – resources are indispensable as transport and packaging material. Anyone who brings plastic into the cycle also bears responsibility for its further use. Accordingly, the Schwarz Group has for many years been particularly committed to collecting, sorting and recycling of these resources.

The vision of “less plastic – closed loops” is also consistently pursued against an economic background. In order to live up to its self-conception as a future-oriented innovation driver, the Schwarz Group has committed itself to reducing plastic consumption by 20 percent by 2025 and to making 100 percent of the packaging of its own brands as recyclable as possible. In addition, the Schwarz Group signed the Global Commitment of the New Plastics Economy of the Ellen Mac Arthur Foundation in 2018. To implement the goals set, the Schwarz Group launched the plastics strategy REset Plastic in 2018.

The five guiding principles of the action areas of REset Plastic – the plastic strategy of Schwarz Group:

REduce – We reduce – wherever sustainably possible – plastic. Not only in packaging!

REdesign – We design recyclable packaging and close loops.

REcycle – We collect, sort and recycle plastics to close the loop.

REmove – We support the removal of plastic waste from the environment.

REsearch – We invest in research and the development of innovative solutions and educate on recycling.

As part of the Schwarz Group, Kaufland Hrvatska k.d. makes an important contribution to the implementation of REset Plastic.

Numerous successes have already been achieved. Kaufland Hrvatska k.d. completely removed all disposable plastic articles such as drinking straws, disposable cups and jars, plates, cutlery and cotton swabs with plastic shafts from its range by the end of 2019. These disposable plastic products have been replaced by those made of alternative and recyclable materials. In a second step, the conversion of cutlery and drinking straws in the convenience and beverage sector is now also being sought.

REsearch

We invest in research and the development of innovative solutions and educate on recycling.

REduce

We reduce – wherever sustainably possible – plastic. Not only in packaging!

REdesign

We design recyclable packaging and close loops.



REmove

We support the removal of plastic waste from the environment.

Recycle

We collect, sort and recycle plastics to close the loop.

RESET PLASTIC

Say NO to microplastics

Tiny plastic particles are a burden to us and our environment, but this goes almost unnoticed,

and increases every day. That is why Kaufland is advocating a world without microplastics. Since 2013 Kaufland has committed itself to completely dispensing with microplastic particles in private label products in the areas of cosmetics, personal care as well as detergents and household cleaning agents. These have been replaced by natural and renewable ingredients, among others.

At Kaufland, the term “microplastic particles” implies solid, visually recognizable plastic particles smaller than 5 mm with an abrasive effect that are not water soluble.

Here Kaufland currently considers polyamides (PA), polyethylenes (PE), polyethylene terephthalate (PET), polyesters (PES), polyimides (PI), polypropylenes (PP), and polyurethanes (PUR).

Kaufland is now taking this one step further. The definition of microplastics has been expanded: in addition to plastic particles, the definition now includes other, non-biodegradable, synthetic polymers.

When referring to “Microplastic Free Formula”, Kaufland also includes other non-biodegradable, synthetic polymers,* which can be solid, dispersed, gel-like, dissolved or liquid, in its definition. Among these, Kaufland includes polyacrylates (e.g. acrylate copolymers, acrylate crosspolymers, polyacrylates, carbomer, polymethyl methacrylate, polyacrylamides), polyquaternium, polystyrenes, silicones (e.g. methicones, dimethiconol, other siloxanes and silanes), PEG > 35, PPG > 50, polyvinyls (e.g. polyvinylpyrrolidones (PVP)), polylactic acid (PLA), ethylene-vinyl acetate copolymers.

With its extended definition of “Microplastic Free Formula”, Kaufland has set the goal of no longer using microplastics and non-biodegradable, synthetic polymers in the formulations of Kaufland’s cosmetic products and detergents, cleaning agents and household cleaners of its own brands by the end of 2021 onwards – provided that the waiver does not result in a significant reduction in product performance and/or safety.**

The formulas of all baby care products in the Bevola Baby® product line are already without microplastics today.**

All private label articles without microplastics will be gradually marked with the logo “Microplastic Free Formula”.

For more information about Kaufland’s plastic reduction strategy in Croatian, please visit: kaufland.hr/plastika

*Synthetic polymers are made up of basic monomeric building blocks that are linked together by chemical reactions to form polymeric macromolecules. Semi-synthetic polymers, which are based on natural polymers such as cellulose and are chemically modified, are to be distinguished from these.

** Not related to packaging or carrier materials (such as cloths, pads).

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**Independent practitioner’s assurance report –
limited assurance on underlying subject matter
and the applicable criteria**

To the management of Kaufland Hrvatska k.d.:

This report is intended solely for the management of Kaufland Hrvatska k.d. (hereinafter “the Company”) for the purpose of reporting on 3 Indicators (302-1, 305-1 and 404-1) within Sustainability Report prepared by the Company for the year ended 29 February 2020 (“the Sustainability Report”) in accordance with the GRI Standards (“the GRI Standards”).

Underlying Subject Matter and Applicable Criteria

The assurance engagement relates to the following subject matters within the Sustainability Report on which the following applicable criteria are applied:

- Energy consumption within the organization as per GRI Standard 302-1
- Direct (Scope 1) GHG emissions as per GRI Standard 305-1
- Average hours of training per year per employee as per GRI Standard 404-1

Specific Purpose

This report is intended solely for the purposes specified in the first paragraph above and for your information and must not be used for other needs or distributed to other recipients. The report refers exclusively to the Sustainability Report and must not be associated with any Company’s financial statements as a whole.

Responsible Party’s Responsibilities

The Company’s management is responsible for the preparation of the Sustainability Report in accordance with the GRI Standards. In particular, the Company’s management is responsible for internal controls being designed and implemented to prevent the Sustainability Report from being materially misstated.

In addition, the Company’s management is responsible for ensuring that the documentation provided to the practitioner is complete and accurate. The Company’s management is also responsible for maintaining the internal control system that reasonably ensures that the documentation described above is free from material misstatements, whether due to fraud or error.

Practitioner’s Responsibilities

We conducted our assurance engagement in accordance with International Assurance Standards, particularly ISAE 3000 (revised). These regulations require that we comply with ethical standards and plan and perform our assurance engagement to obtain limited assurance about the Sustainability Report.

We apply International Standard on Quality Control 1 (ISQC 1), and accordingly, we maintain a robust system of quality control, including policies and procedures documenting compliance with relevant ethical and professional standards and requirements in law or regulation.

We comply with the independence and other ethical requirements of the IESBA Code of Ethics for Professional Accountants, which establishes the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The procedures selected depend on the practitioner’s judgment. The procedures include, in particular, inquiry of the personnel responsible for financial reporting and risk management and additional procedures aimed at obtaining evidence about the Sustainability Report. The assurance engagement performed represents a limited assurance engagement. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is lower.

In respect of the subject matter mentioned above we have performed mainly the following procedures:

- Understanding of the Company’s internal controls, processes and systems set up for the preparation of the Sustainability Report.
- Reconciliation, on a sample basis, of 3 indicators (302-1, 305-1 and 404-1) presented in the Sustainability Report with the supporting documentation provided by the Company.
- Reading the Sustainability Report and review of the presentation of 3 indicators (302-1, 305-1 and 404-1) in accordance with the GRI Standards.

Practitioner’s conclusion

Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that 3 Indicators (302-1, 305-1 and 404-1) within the Sustainability Report were not prepared, in all material respects, in accordance with the GRI Standards.

7 December 2020



Filip Hitrec

Ernst & Young d.o.o.
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10 000 Zagreb, Croatia

Attachment

1. Sustainability Report, Kaufland Hrvatska k.d.

Publisher: Kaufland Hrvatska k.d.

Consultants in preparing the report according to GRI Standards: Nikolina Markota Vukić PhD and Darija Sesar, LLM, Institute for Corporate Social Responsibility (IDOP)

Consultants: Vali Marszalek, Expert for the assessment of SDG effects and development of sustainability strategies

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**Our
actions
do the
talking.**



Kaufland